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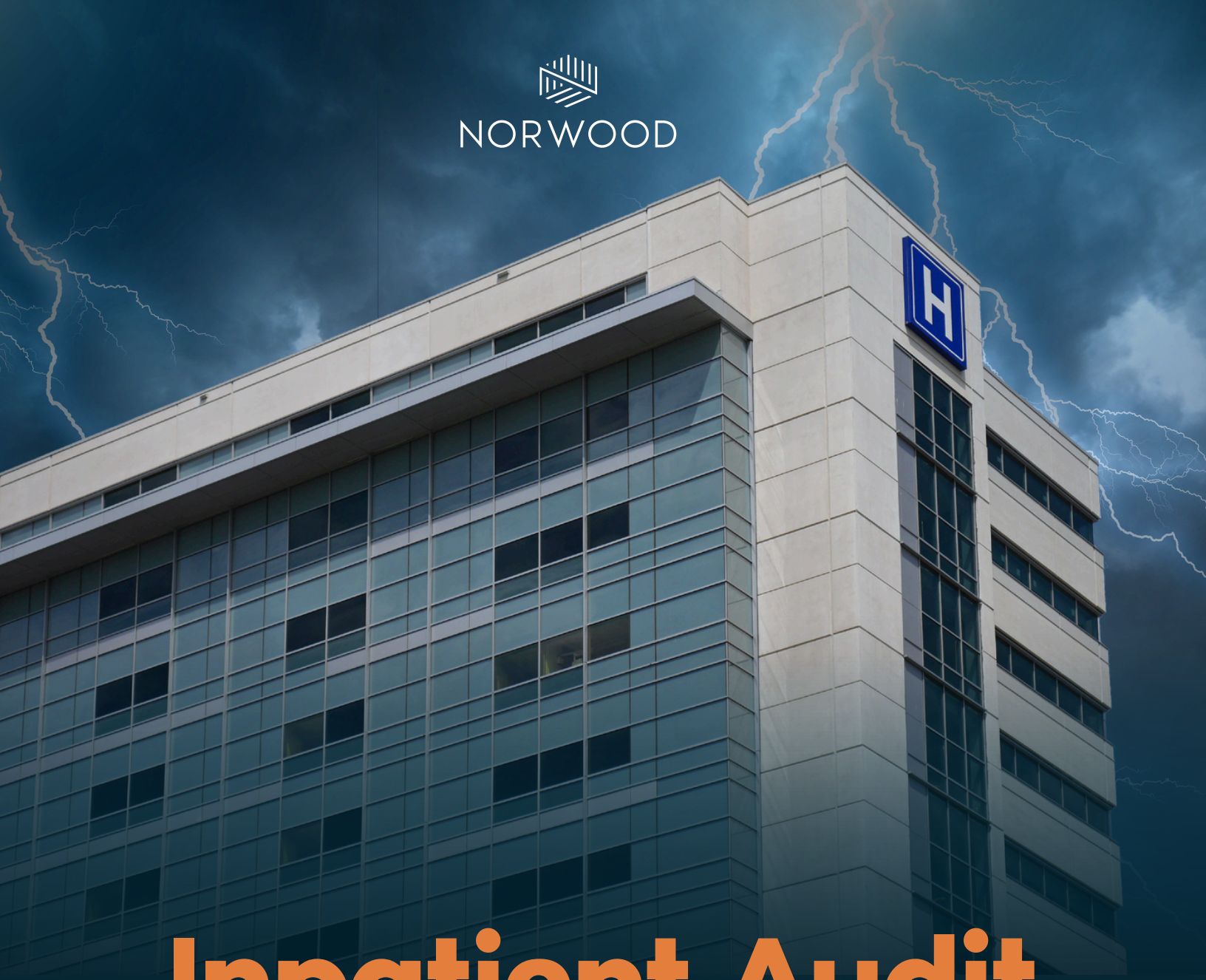


Inpatient Audit Storm Clouds

String of OIG Reports Expose Broad Threat to Hospitals Nationwide

Inpatient Audit Storm Clouds
Introduction

The Office of Inspector General (OIG) never rests.

After taking on Medicare Advantage organizations and aggressive risk adjustment coding practices from 2023-2025, the sights of the nation's regulatory watchdog have shifted.

The New Target?

Acute Care Hospitals & Inpatient Admissions

plus some other outpatient odds and ends

This report examines three OIG hospital audits and almost $35M of total recommended takebacks:

1

Jefferson Regional

$4.7M

estimated overpayment

2

Sarasota Memorial

$12.1M

estimated overpayment

3

Lehigh Valley

$17.8M

estimated overpayment

We cover not just the high-level findings, but commonalities across all three audits, and end with a blueprint for reducing your audit vulnerability.

Because we expect more audits in the coming months.

Remember, the OIG never rests.

The Findings

These reports are not about hospital audits in isolation, but a pattern that should merit the compliance attention of any hospital.

In each audit, the OIG's strategy was the same:

Target Perceived Vulnerabilities → **Aggressively Audit Small Samples of Claims** → **Extrapolate Large Penalties**

The OIG went after all three hospitals on several pre-identified fronts. These included the following designated "high-risk areas"

1. **IRF and psychiatric facility claims**
2. **Inpatient claims with the following:**
   - High-severity level DRG codes
   - Comprehensive error rate testing (CERT) error prone DRG codes
   - DRGs for severe malnutrition
   - Resumption of home health services
   - Claims paid in excess of charges
   - Mechanical ventilation
   - Same day discharge and readmission
3. **Outpatient claims with bypass modifiers**
4. **Outpatient skilled nursing facility (SNF) consolidated billed claims**

The OIG's findings revealed very consistent findings, with small variations based on each hospital.

Averaged across the three hospitals, its independent medical reviewers found that 32.4% of all claims contained some form of error.

The biggest risks? Inpatient claims, specifically related to short stay admissions and the Two Midnight Rule, as well as inpatient rehab facility (IRF) claims.

83% the errors were related to IP claims and IRF, as opposed to just 17% outpatient errors. All the appreciable revenue at risk resides in these two.

Let's look at each hospital in turn.

Jefferson Regional
Hospital 1

What Were The *(Perceived) Errors*

of the 33 claims the OIG says were reported in error:

- **14 were incorrectly billed inpatient claims**
- **12 were incorrectly billed IRF claims**
- **7 were for outpatient claims**

The Details

- The OIG reviewed 100 inpatient and outpatient claims and determined Jefferson Regional complied with Medicare billing requirements for 67 of them.
- The remaining 33 claims were submitted with some form of error, resulting in net overpayments of $348,677 from July 1, 2019, though June 30, 2021 (audit period).
- Using extrapolation, the OIG determined Jefferson Regional received net overpayments of at least $4.7 million.

The biggest vulnerability in terms of claim volume are unmet Two Midnight Rule requirements. 10 of the 14 inpatient claims did not meet criteria for inpatient admission and should have been billed as outpatient, the OIG claims.

"The medical records did not support that it was reasonable for the admitting physician, at the time the inpatient order was written, to have expected that hospital care was required for 2 or more midnights," it states.

But don't sleep on its IRF findings.

These represented a larger dollar error than inpatient claims ($229,425 vs. $118,207), though the underlying reason is the same: **Insufficient documentation related to medical necessity.**

"For 11 of these claims, there was not a reasonable expectation that the enrollee required supervision by a rehabilitation physician," the OIG states.

"For the remaining claim, there was not a reasonable expectation that the enrollee was sufficiently stable to be able to actively participate in a rehabilitation therapy program."

There may have been ample reasons enrollees required IRF supervision and treatment, but as the old adage goes: If it's not documented, it's not done.

Lehigh Valley Hospital
Hospital 2

What Were The *(Perceived) Errors*

Inpatient Claims

29 of 65 claims reviewed failed Medicare inpatient medical necessity criteria

IRF Claims

6 of 20 failed Medicare IRF coverage criteria

$147,967 in associated overpayments

The Details

- The OIG reviewed Medicare billing requirements for 100 inpatient and outpatient claims and determined 62 were in compliance.
- The remaining 38 claims contained errors, per the OIG, resulting in net overpayments of $433,723.
- Using extrapolation, the OIG estimated Lehigh Valley received net overpayments of at least $17.8 million for the audit period.

Like Jefferson Regional, Lehigh Valley's errors were heavily concentrated on inpatient medical necessity/failure to meet Medicare inpatient services criteria (29 of the 65 selected inpatient claims).

Six of 20 selected IRF claims likewise failed to meet Medicare criteria, resulting in overpayments totaling $147,967.

Two Midnight Rule Shortfall: One Example

The OIG provided the following instructive example of why it denied one admission at Lehigh Valley:

One enrollee was admitted for left hip and lower back pain with impaired ambulation (difficulty in walking).

The enrollee was treated and evaluated by a physician, then was discharged after assessment by an occupational therapist. Documentation at the time of admission did not justify an expectation of hospital care for a period that crosses 2 midnights.

These OIG audits contain several such examples.

Sarasota Memorial
Hospital 3

What Were The *(Perceived) Errors*

of the 26 claims the OIG says were reported in error:

- **11 were incorrectly billed inpatient claims**
- **8 were incorrectly billed IRF claims**
- **7 were incorrectly billed outpatient claims**

The Details

- The OIG reviewed 100 inpatient and outpatient claims and determined Jefferson Regional complied with Medicare billing requirements for 67 of them.
- The remaining 33 claims were submitted with some form of error, resulting in net overpayments of $348,677 from July 1, 2019, though June 30, 2021 (audit period).
- Using extrapolation, the OIG determined Jefferson Regional received net overpayments of at least $4.7 million.

Like Jefferson Regional and Lehigh Valley, Sarasota Memorial's errors were heavily concentrated on inpatient medical necessity/failure to meet Medicare inpatient services criteria and IRF claims.

11 of the 26 claims errors were related to errors in inpatient billing and eight were for incorrectly billed IRF claims.

DRG Audit Finding: Detail Example

The OIG provided the following instructive example of why it downgraded one DRG at Sarasota Memorial:

One enrollee was admitted to the Hospital with an incorrect principal diagnosis code used for pain caused by internal prosthetic devices, implants, and grafts.

The actual cause of admission was a complication related to breast implants. The change in the principal diagnosis code caused a change in the DRG code, which should be reimbursed at a lower payment rate.

What's Next?

All three hospitals disagreed with the audit findings, along very similar lines.

Jefferson Regional

stated that the OIG's contracted medical reviewer misapplied CMS regulatory requirements for payment for multiple claims and overlooked key medical record documentation supporting the claims.

It also stated that it was not given an opportunity to engage with the medical review contractor on those determinations with which it disagreed.

Sarasota Memorial

stated that the audit conclusions were flawed due to OIG's failure to adequately consider the clinical judgment of treating physicians and the effect of the COVID-19 PHE, as well as OIG's misapplication of Medicare legal requirements, such as the Two-Midnight Rule.

In addition, the Sarasota disagreed with OIG's use of statistical extrapolation, asserting it lacks the required threshold findings and is inappropriate for subjective medical necessity determinations.

Lehigh Valley

stated the OIG's findings largely reflect a difference in medical opinion about the enrollees' conditions and that these differences do not provide a basis for claims denials.

In addition, the Hospital disagreed with OIG's sampling methodology, asserting it failed to meet the legal standards required to calculate and extrapolate audit results.

The OIG maintained its findings were accurate, and its methods, including use of extrapolation, quite sound.

Where does this leave us? With the ball back in CMS' court.

Something New (And Concerning)

Hospitals pushing back aggressively and disagreeing OIG findings is not an uncommon tactic, but the OIG is reacting with a new strategy of its own: **A recommendation tracker.**

The OIG is not only holding hospitals accountable, but also CMS, by placing in front of them its audit recommendations, with a timeline. For example, the OIG wrote of its Sarasota audit report "Update expected on 8/24/2026."

What this "update" exactly means (update from CMS? Anticipated additional Sarasota response?) remains unclear.

But we will continue to monitor.

What Can You Do?

1 Examine the Bigger Patterns

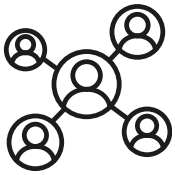
Don't dwell on the OP findings when most of the risk is in admissions and IRF requirements. This also includes the OIG's annual Work Plan, which serves as a blueprint.

2 Don't Ignore the Details

The audit reports contain many clinical scenarios that will resonate with your physicians.

3 Network with your Peers

There is strength in numbers. Some organizations have experience responding to prior audits. Learn from your peers and form a defense network.



4 Document, Document, Document

Some of the problems are related to inaccurate coding but most are related to insufficient documentation. Set a standard for what constitutes sufficient medical necessity.

5 Don't Go Down Without a Fight.

There is strength in numbers. Some organizations have experience responding to prior audits. Learn from your peers and form a defense network.

We're Here If You Need Us

We have developed a sensitive, proprietary audit tool that can quickly identify your level of OIG audit risk. And we have industry-leading education, code audit, and audit defense services at your disposal.

Schedule a 30-minute call with Norwood SVP of Solutions Jason Jobes or Norwood Solutions Senior Director Joanne Wilson.

Contact Us
consulting@norwood.com

References & Resources

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