

Report on Medicare Compliance Volume 28, Number 10. March 18, 2019

With Request for Vendor Memos, OIG Begins Audit of Outlier Payments and Device Credits

By Nina Youngstrom

In an evolution of a longstanding risk area, a national audit is underway of outlier payments for claims with manufacturer credits for replaced medical devices. Some hospitals have received or will receive a request for documentation from the HHS Office of Inspector General (OIG) of Medicare charges and “related supporting documents for medical devices that were credited from the manufacturer that impact outpatient outlier claim payments.”

Plans for the audit were announced in January on OIG’s Work Plan, and apparently auditors have gotten to work. OIG is looking beyond the usual issue of whether hospitals passed on manufacturer credits for replaced medical devices to Medicare, says Patrick Kennedy, compliance officer at UNC Hospitals in Chapel Hill, North Carolina, which got an OIG request for documentation, including vendor credit memos. “It’s different because the outlier payments are in addition to the APC payments,” he explains.

Outlier payments are bonuses that hospitals receive when costs for patient care are exceptionally high. When hospitals report manufacturer credits but forget to reduce their charges for procedures for explanted medical devices, they create a gap that could generate undeserved outlier payments, adds Stephen Gillis, director of compliance coding, billing and audit at Partners HealthCare in Boston. “It’s almost like you try to do the right thing, but unless you do it completely, you could still be in hot water,” he says.

CMS requires hospitals to pass on to Medicare the credits they receive from manufacturers for recalled or malfunctioning medical devices or for medical devices implanted free as part of clinical trials. CMS in 2015 changed the way that hospitals report device credits, which are used to reduce Medicare payments for inpatient and outpatient procedures performed to replace or fix devices, such as pacemakers and defibrillators. Explanted devices with a manufacturer credit of 50% or greater are reported on Medicare claim forms with value code FD (credit received from the manufacturer for a medical device) and, if applicable, condition code 53 (initial placement of a medical device provided as part of a clinical trial or free sample).

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