	Government Programs	No.	GP 11	
	Title: MEDICARE INPATIENT COST OUTLIER REVIEW	Page:	1 of 5	
		Effective Date:	09-27-11	
		Retires Policy Dated:	06-01-08	
		Previous Versions Dated:		

I. SCOPE:

This policy applies to (1) Tenet Healthcare Corporation and its wholly-owned subsidiaries and affiliates (each, an “Affiliate”); (2) any other entity or organization in which Tenet Healthcare Corporation or an Affiliate owns a direct or indirect equity interest greater than 50%; and (3) any hospital or healthcare facility in which Tenet Healthcare Corporation or an Affiliate either manages or controls the day-to-day operations of the facility (each, a “Tenet Facility”) (collectively, “Tenet”).

II. PURPOSE:

The Social Security Act provides for basic inpatient Medicare prospective payments to Medicare-participating hospitals and additional payments for cases incurring extraordinarily high costs (Section 1886(d)(5)(A)). These additional payments are known as Outlier Payments, and they are designed to protect the hospital from large financial losses due to unusually expensive cases. The regulations governing payments for operating costs under the IPPS are located in 42 CFR Part 412, and the specific regulations governing Outlier Payment cases are located at 42 CFR 412.80 through 412.86.

Under Medicare regulations at 42 CFR Section 412.84(i)(4), high cost Outlier Payments may be reconciled upon cost report settlement to account for differences between the Cost-to-Charge Ratios (“CCR”) used to pay the claim at its original submission by the provider, and the CCR determined at final settlement of the cost reporting period during which the discharge occurred.


The purpose of this policy is to establish, for those Tenet Facilities that are Medicare-certified and eligible to receive Medicare outlier payments for inpatient hospital services, the responsibilities and procedures for monitoring the Tenet Facilities’ Cost-to-Charge Ratios (CCR), other events that influence outlier payments and the Outlier Payment Percentage¹.

III. POLICY:

A. Government Programs Responsibilities

1. Government Programs will periodically, but not less frequently than annually, review current hospital costs and charges to evaluate the reasonableness of CCRs used by the intermediary to calculate Outlier Payments.
2. Government Programs will periodically (at least annually) review the Outlier Payment Percentage to assess the reasonableness of changes in the percentage between periods.

¹ Outlier CCRs and outlier payment percentages typically fluctuate from cost reporting period to cost reporting period, and a change in the CCR and/or the outlier payment percentage alone is not prima facie evidence that a hospital’s outlier payments are incorrect. However, fluctuations in the outlier CCR and/or the outlier payment percentage may be indicative of charge, cost, payment, or utilization changes that require additional investigation, and, potentially, corrective action.

	Government Programs	No.	GP 11	
	Title: MEDICARE INPATIENT COST OUTLIER REVIEW	Page:	2 of 5	
		Effective Date:	09-27-11	
		Retires Policy Dated:	06-01-08	
		Previous Versions Dated:		

B. Tenet Facility Responsibilities

Notwithstanding the Government Programs responsibilities in Section III.A., above, each Tenet Facility Chief Financial Officer is responsible for:


1. Monitoring month-to-month fluctuations in the Tenet Facility’s Outlier Payment Percentage and reporting to Government Programs unusual fluctuations and the possible cause(s) for the fluctuations,
2. Reporting to Government Programs events that could influence the outlier CCR, and
3. Ensuring that Medicare inpatient claims with extraordinarily long lengths of stay for which an Outlier Payment is expected to be paid, or has been paid, satisfy medical necessity criteria for the entire stay.

IV. PROCEDURES:

A. Government Programs Implementation

1. CCR Review

- a. Each time the Medicare Administrative Contractor (MAC) issues a notice of change to a Tenet Facility’s cost outlier CCR, Government Programs will immediately review the supporting calculation for accuracy.
 - (1) If Government Programs determines that the CCR calculated by the MAC may not be correct, Government Programs will immediately notify the MAC in an effort to minimize the underpayment or overpayments created by the incorrect CCR.
 - (2) In the event Medicare outlier payments were processed with the incorrect CCR, Government Programs will consult with the MAC to determine what action is required, if any, to correct the outlier payments.
- b. Government Programs will develop and maintain a uniform review tool to be utilized in the calculation of estimated current operating and capital cost-to-charge ratios (“Estimated Current CCRs”).
- c. On at least an annual basis, the Estimated Current CCRs will be compared to the CCRs used by the MAC to determine outlier payments.

	Government Programs	No.	GP 11
	Title: MEDICARE INPATIENT COST OUTLIER REVIEW	Page:	3 of 5
		Effective Date:	09-27-11
		Retires Policy Dated:	06-01-08
		Previous Versions Dated:	


- d. All variances in excess of 10 points (*e.g.*, .30 vs. .41)² will be investigated³ with the assistance of Tenet Facility personnel to determine the root cause(s). Items to consider may include but are not limited to the following:
 - (1) Significant increases or decreases in volume;
 - (2) Gross charge increases or decreases;
 - (3) Significant increases or decreases in total cost;
 - (4) Changes in services and/or case mix
- e. If any portion of the variance is related to gross charge increases or decreases, including across-the-board increases or decreases, the Tenet Facility may be required to provide evidence that the charge increases or decreases were made in accordance with [Regulatory Compliance Policy 4.31, Requests to Add or Modify Hospital Charges](#), and to provide further support for the reasonableness of the charge changes as required.
- f. The results of the CCR review will be communicated to the Tenet Facility’s Chief Financial Officer and the Hospital Compliance Officer.
- g. After the variance has been investigated, and it is determined that the CCR used by the MAC should be updated, Government Programs will submit a request to the MAC to revise the CCR in accordance with the applicable Medicare regulations.

2. Outlier Percentage Review

- a. Government Programs will conduct annually, based on submitted Medicare cost reports, an “Outlier Payment Percentage Review”. In addition, Government Programs will conduct, at least semi-annually, based on internal reports, an “outlier Payment Percentage Review”. The reviews are intended to identify variations in the proportion of outlier payments paid to individual Tenet hospitals as compared to the comparable prior year period.

² In addition to the mandatory investigations, variances that are below the 10 point threshold may require investigation on a case-by-case basis.


³ It is typically not possible to explain with full precision the reason(s) for a change in the CCR from period to period. However, it is usually possible to explain in general terms what element(s) of the CCR calculation had the most effect on the change in the CCR, every effort must be made to fully understand the cause(s) of the change in the CCR.

	Government Programs	No.	GP 11	
	Title: MEDICARE INPATIENT COST OUTLIER REVIEW	Page:	4 of 5	
		Effective Date:	09-27-11	
		Retires Policy Dated:	06-01-08	
		Previous Versions Dated:		

- (1) The Outlier Payment Percentage will be calculated as the ratio of total Outlier Payments divided by the sum of total Outlier Payments plus Medicare operating DRG payments.
- (2) If the Outlier Payment Percentage is at least 5% and increased by more than 10% from the prior cost reporting period, Government Programs, with the assistance of Tenet Facility personnel and other corporate departments/ personnel including Patient Financial Services, Charge Description Master, and Quality Management, will investigate the root cause(s) for the increase in the Outlier Payment Percentage.^{4,5} Items to consider as possibly contributing to the variance include, but are not limited to:
 - (a) Charge increases or decreases
 - (b) Service intensity (case mix change)
 - (c) Extraordinarily long length of stay cases in the current period
 - (d) A change in the cost outlier threshold established by CMS
 - (e) A change in the CCR
- (3) If any portion of the variance is related to gross charge increases, the Tenet Facility may be required to provide evidence that the charge increases were made in accordance with the applicable [Regulatory Compliance Policy COMP-RCC 4.31, Requests to Add or Modify Hospital Charges](#), and to provide further support for the reasonableness of the charge changes as required.
- (4) If any portion of the variance is related to a small number of extraordinarily long stay cases, the Tenet Facility and Quality Management may be required to review the

⁴ In considering the root causes of Outlier Payment Percentage increases, it is important to note that the Outlier Payment Percentage will generally fluctuate from period to period due to changes in admission rates, patient population, and case mix. Some of the factors impacting the Outlier Payment Percentage are under a facility's control, while others are not. Thus, a change in the Outlier Payment Percentage is not, in and of itself, indicative of a problem or issue.

⁵ It is typically not possible to explain with full precision the reason(s) for a change in the outlier percentage from period to period. However, it is usually possible to explain in general terms what factors had the most effect on the change in the outlier percentage; thus, every effort must be made to fully understand the cause(s) of the change in the outlier percentage.

	Government Programs	No.	GP 11	
	Title: MEDICARE INPATIENT COST OUTLIER REVIEW	Page:	5 of 5	
		Effective Date:	09-27-11	
		Retires Policy Dated:	06-01-08	
		Previous Versions Dated:		

exceptional cases to ensure that medical necessity/continued stay criteria have been met for the entire stay.

- (5) The results of the CCR review will be communicated to the Tenet Facility's Chief Financial Officer and the Hospital Compliance Officer.
- (6) After the variance has been investigated, and it is determined that the CCR used by the MAC should be updated, Government Programs will submit a request to the MAC to revise the CCR in accordance with the applicable Medicare regulations.

B. Responsible Person

Corporate Audit Services will audit adherence to this policy as part of its routine audits.

C. Enforcement

All employees whose responsibilities are affected by this policy are expected to be familiar with the basic procedures and responsibilities created by this policy. Failure to comply with this policy will be subject to appropriate performance management pursuant to all applicable policies and procedures, up to and including termination. Such performance management may also include modification of compensation, including any merit or discretionary compensation awards, as allowed by applicable law.

V. REFERENCES:

- [Regulatory Compliance Policy COMP-RCC 4.31, Requests To Add or Modify Hospital Charges](#)
- [42 CFR §§412.80 through 412.86](#)
- [42 CFR §412.84\(i\)\(4\)](#)
- [Medicare Claims Processing Manual \(CMS Pub. 100-04\), Chapter 3, Inpatient Hospital Billing, §20.1.2 et seq.](#)