Home Health

BUSINESS REPORT

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A WEEKLY REPORT ON NEWS, TRENDS & STRATEGIES FOR THE HOME HEALTHCARE EXECUTIVE

Inspector General says DMERCs' anti-fraud efforts still in question

By MATTHEW HAY
***HHBR* Washington Correspondent**

WASHINGTON – The four durable medical equipment regional carriers (DMERC) are meeting most of the objectives the **Health Care Financing Administration** (HCFA; Baltimore) established for the specialized carriers in October 1993, the **Department of Health and Human Services**' (Washington) **Office of Inspector General** (OIG) concluded in a report released last week. But the OIG questioned the effectiveness of the DMERC fraud units.

While the DMERCs have successfully targeted fraud in many specific cases, a lack of complete information made an assessment of their overall effectiveness in this area impossible, the OIG said. "While we obtained some workload data that quantifies their fraud efforts, the DMERCs did not provide needed data that documented the quality and result of their efforts."

To better measure those efforts, the OIG urged HCFA to require the DMERCs to maintain data in their automated fraud information systems that includes complete and accurate documentation on the sources of opened cases and detailed financial information on fraud cases in overpayment status. The OIG said these data would facilitate an analysis of both the quantity and quality of the work performed by the DMERC fraud units

HCFA Administrator Nancy Ann DeParle concurred with the OIG's recommendation and reported that the agency is currently developing a Program Integrity Management Reporting system that will require Medicare contractors to report on fraud and abuse overpayments. She said the new system is scheduled for implementation in FY00.

HCFA started using the four DMERCs to process claims for Medicare durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) six years ago in

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HCFA official predicts demise of 15% reduction, minor changes in PPS

By MATTHEW HAY
***HHBR* Washington Correspondent**

WASHINGTON – The **Health Care Financing Administration** (HCFA; Baltimore) will not be publishing revised payment rates for the home health prospective payment system (PPS) as some industry representatives were hoping, Bob Wardwell, director of HCFA's post acute care division, told a group of providers at the **American Association of Homes for the Aging** (Washington) last week. He also reported very little enthusiasm inside or outside the agency for the additional 15% cut in Medicare home health spending.

"I don't think there will major changes from what was in the proposed rule," said Wardwell, who is heading the agency's development of PPS. "There are more likely to be significant but smaller changes." Those smaller changes will likely include modifications in the case mix, as well as changes in payment levels, he said.

"Right now, it looks like we are on schedule," said Wardwell. "It looks like it will happen Oct. 1, and it looks like we will get our regulation published on time." He added that HCFA is hoping to post the claims format on its Internet site in the next month.

Some people still doubt that, he admitted. "But some people did not believe (the interim payment system) was going to happen either," he warned. "Where are they today? There are 2,000 less of them.

"My best advice to people right now is to plan as if the proposed rule is the final rule, especially in terms of systems and operations changes," he added. "Be preparing now. Don't be scared.

Wardwell said he thinks agencies will be happier with the new system than they were with the interim payment system (IPS). "I think we are on the verge of a happier time than most agencies have experienced under IPS," said

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DMERCs

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place of the 34 carriers that used to process all Part B claims, including DMEPOS. The agency believed the plethora of carriers lacked expertise in DMEPOS and exposed this area to rampant fraud and abuse, including carrier shopping by suppliers looking for the highest reimbursement rates among carriers. The agency was also concerned about ineffective education and outreach efforts.

HCFA charged the DMERCs with establishing medical review (MR) policies for the 100 items that had the highest allowed charges, developing aggressive education and fraud prevention programs, and reducing claims processing costs.

On the whole, the OIG reported, those goals have been met. According to the OIG, claims processing costs for DMEPOS claims have declined by 15% since the DMERCs were established, from $1.17 per claim in 1995 to $1 per claim in 1998. That translates into a savings of $37 million per year compared to the old system, said the OIG. Most of those savings were realized through standardized claims forms, increased use of electronic claims submission, and DMERC medical expertise, according to the OIG.

The DMERCs established MR policies for all but one item and have implemented a series of educational seminars directed at suppliers, physicians, and beneficiaries, as well as focused efforts to educate suppliers with a history of billing problems, according to the OIG.

The OIG also reported that the DMERCs have worked cooperatively with HCFA, the OIG, and the statistical analysis durable medical equipment regional carrier, which analyzes billing patterns across all four DMERCs, to improve Medicare claims processing and reduce fraud. Subsequent policy revisions have led to financial savings in several areas, including wound care supplies, lymphedema pumps, incontinence supplies, and orthotics, the OIG added. ■

WHAT THEY'RE SAYING

• Mark Sullivan, director of operations for the **Catholic Health System** in Buffalo, NY, responded to a recent *Buffalo News* report on the wages earned by home healthcare aides by saying that the attraction to home care cannot be measured in wages alone. "We know the service our aides provide is priceless, but it is also important for the public to understand that wage scales in home care are, to a great extent, dictated by low Medicare and Medicaid reimbursement," Sullivan wrote. He further wrote that in an employee satisfaction survey his employees complete each year, aides often reply to the question of what could make their job better by saying that they need more hours and better wages. "Recognizing that wages are between $7 and $8 per hour, we continue to address aide income at every opportunity."

• "As a home care worker, I have been very pleased with your stories on the challenges we face providing care to senior citizens," Rick Philbrick recently wrote to the editor of the *Portland Oregonian*. "The pay is low, and we are not protected by minimum wage or workers' compensation laws. I provide good home care, but if I got sick or injured, there would be no similar safety net for me." Philbrick further wrote, "I do my job because I care about my clients. I am proud that because of the care I provide, my client can remain in her home, instead of going into a nursing home."

• Louisiana's Extended Home Health Program helps finance in-home care for a small population of medically fragile children, many of whom are dependent on advanced-technology life support equipment, and is often overlooked by the press, Brenda Costa, regional director of nursing for **Pediatric Services of America**, recently wrote to the editor of the *New Orleans Times-Picayune*. "Without funding for this program, many parents will be forced to institutionalize their children at an even higher cost to the state," Costa wrote. Not only does the program save Louisiana money, but it allows family members to take a more active role in the the care of their sick or disabled child at home. ■

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COMPANIES IN THE NEWS

AAH adds line of home health aids

AAH Pharmaceuticals is adding 360 new lines to its range of incontinence products and mobility and disability aids. The home health range is available from a new consumer catalogue, the *Home Health Hotline*, that divides 650 product lines into four sections, including personal medical care, about the house, mobility − out and about, and sport and leisure, reported *Chemist & Druggist*. The *Hotline* can also identify the pharmacy nearest to a patient's home, said AAH.

Spinoff of Gentiva approved

Gentiva Health Services (Melville, NY), the newly named home care subsidiary of **Olsten Corp**. (Melville, NY), reported a 12% increase in FY99 ended Jan. 2 net revenues to $1.5 billion from $1.3 billion in FY98. Gentiva posted a net loss for the year of $15.1 million, compared to a FY98 net loss of $101.5 million.

Total revenues for 4Q99 increased 3% to $372 million from $362 million in 4Q98, Gentiva said. The company saw a net loss in 4Q99 of $2.2 million, compared to a 4Q98 net loss of $43 million.

Olsten shareholders last week approved the spinoff of Gentiva from Olsten as a separate, publicly traded company and the sale of Olsten's staffing and information technology services businesses to **Adecco S.A.**, a Switzerland company. Olsten announced the merger plans in August. The company said Gentiva is expected to begin trading March 16 on the Nasdaq under the symbol GTIV.

In other news, **Moody's Investors Service** (New York) assigned a (P)B2 rating to the senior secured credit facility of Gentiva and downgraded the rating of the convertible subordinated debentures of Gentiva's **Quantum Health Resources** subsidiary to Caa1 from Ba3. Moody's said the rating outlook for Gentiva is negative. The ratings, Moody's said, reflect uncertainty regarding the refinancing of the Quantum subordinated debentures, which mature Oct. 1, Gentiva's thin operating margins and negative pro forma cash flow from operations, and the potential for future impairment of goodwill given the company's low returns.

Invacare gets buy rating from Warburg Dillon

Warburg Dillon Read (New York) has started coverage of **Invacare Corp**. (Elyria, OH) with a buy rating and set a 12-month price target of $34. The firm said it views Invacare "as one of the standout companies in home healthcare. Its competition is looking weak, and the reimbursement environment is looking better than it has in the past couple of years."

Lexington sees jump in stock price

Lexington Healthcare Group (Boston) CEO Harry Dermer said he doesn't know why the company's share prices jumped more than 70% last week. Dermer said the company experienced a similar scenario a few months ago, but not to the extent of last Monday's activity.

National Home Health sees jump in 2Q00 results

National Home Health Care Corp. (Scarsdale, NY) reported net revenues for 2Q00 ended Jan. 31 of $15 million, an increase of 50% from 2Q99 revenues of $10 million. The company posted a net income for the quarter of $1.5 million, 29 cents per share, compared to a 2Q99 net income of $85,000, 2 cents per share. National Home Health Care said the increases reflect the company's expansion of its existing operations in Connecticut through an opportunity represented by the bankruptcy of certain competitors, the acquisition in November of certain assets from the bankruptcy trustee, and the successful penetration of available market share.

Option Care's FY99 revenues increase 5%

Option Care (Bannockburn, IL) saw a FY99 ended Dec. 31 net income of $4.6 million, 39 cents per share, up from a FY98 net loss of $691,000, 6 cents per share. The company recorded net revenues for the year of $119.8 million, a jump of 5% over FY98 revenues of $114.4 million.

During FY99, Option Care said, several key financial indicators improved. The company lowered its debt from $22 million at the end of FY98 to $9 million at FY99-end. Also, Option Care's selling, general, and administrative costs declined by 3%, days sales outstanding declined to 65 days, and provision for doubtful accounts improved by 40%.

For 4Q99, Option Care posted a net income of $1.4 million, 12 cents per share, compared to a net loss in 4Q98 of $614,000, 6 cents per share. Revenues for 4Q99 totaled $31.4 million, an increase of 8% from 4Q98 revenues of $29.1 million. ■

TECH UPDATE

• **American TeleCare** (Eden Prairie, MN) has been chosen to provide telemedicine equipment and services for a $28 million federally funded diabetes home telemedicine initiative. The project is a collaborative effort of the Joslin Diabetes Center of **SUNY Health Science Center**, the **American Diabetes Association**, the **Health Care Financing Administration**, Arnot Olean General Hospitals, and Good Samaritan Hospital. The project will monitor patients from New York using American TeleCare's telemedicine systems, with the intent of improving care.

In other news, American TeleCare said last week that home care provider **West Prince Health Authority** (Prince Edward Island, Canada) has purchased its home telecare systems and implementation services. The authority plans to use the systems in Canada's first home telecare program, American TeleCare said. **Digital Image FX** (Nova Scotia, Canada), a telemedicine supplier, assisted the healthcare firm in locating the technology appropriate for its applications. The project is being funded by telemedicine grants through the Health Infrastructure Support Program of Health Canada, the health arm of the government. ■

REGIONAL DIGEST

• New Mexico Governor Gary Johnson last week signed a bill that will change the Medical Practice Act to allow home health agencies and hospice care providers to give services to New Mexico patients whose care was ordered by out-of-state physicians. The bill was effective May 17, reported the *Santa Fe New Mexican*.

• According to a report in the *San Diego Union-Tribune*, West Virginia ranks second in the country, behind only Florida, in the percentage of its population covered by Medicare −18%, compared to 14% nationally. And the recent cuts in Medicare reimbursement have deemed more than 5,400 patients in the state ineligible for home care, the *Union-Tribune* reported. Twenty home health agencies have closed in the state, and the West Virginia Council of Home Health Agencies said the state's remaining 71 home health companies are each losing about $180,000 a year.

• Massachusetts legislators met recently with clients of **Montachusset Home Care** (Worcester, MA) as part of the agency's *Home Care Family Week*. "We like to get these legislators to meet with our clients directly," Margaret Woovis, Montachusset executive director, told the Worcester *Telegram & Gazette*. "This the time of year when the state budget is being set, and we need them to know how the money allotted to us is being spent." The legislators viewed the Senior Supportive Living Program and a congregate care unit at a facility and with clients of both programs, reported the *Telegram & Gazette*. The legislators told the *Telegram & Gazette* that participating in the program gives them "insights into the workings of elder care agencies that will help them in defining the state budget."

• Quebec Minister of Health and Social Services Pauline Marois unveiled the areas in which her ministry will use the $2.7 billion set for healthcare in last week's provincial budget. According to the *Globe and Mail*, a portion of the money, $739 million, will be used in what Marois called a major reinvestment plan to improve healthcare services. The plan, reported the *Globe and Mail*, includes spending $200 million to improve home care for the elderly. ■

PPM/MSO NEWS

• **PhyCor** (Nashville, TN) said it doesn't know why its stock jumped higher and traded on volume more than 15 times its daily average one day last week. PhyCor's shares closed that day up 53 cents. While CEO Joseph Hutts said he doesn't know what is pushing up the company's stock, he said he is optimistic about PhyCor's future.

• **Physician Practice Services** (Newark, NJ) plans to begin selling **Passport Health Communication**'s (Franklin, TN) Internet-based product, Passport OneSource, to its more than 400 managed physicians. Passport OneSource is an Internet-based service that provides physician offices and hospitals secure, real time access to critical healthcare administrative data 24 hours a day.

• **IntegraMed America** (Purchase, NY) elected Aaron Lifchez chairman of the board. In addition, Michael Levy was elected vice chairman of the board. Both physicians, Lifchez is president of **Fertility Centers of Illinois**, and Levy is president of **Shady Grove Fertility Reproductive Science Centers** in Washington, DC.

• **Sierra Health Services** (Las Vegas) is planning to create a centralized physician practice management organization to service **The Medical Group of Texas** group practice. The new division is part of a restructuring of its Dallas/Fort Worth, TX, operations that will affect its Texas Health Choice managed health plan. The restructuring will involve changes in senior management at the Texas facilities, Sierra said. ■

MANAGED CARE

• **Coventry Health Care** (Bethesda, MD) and **E.M. Warburg Pincus & Co**. formed a partnership to develop and fund a company that will invest in emerging companies developing healthcare technologies. Coventry said Warburg intends to provide the initial working capital to develop the new company. The new company's investments will be funded 80% by Warburg, and Coventry will cover the remaining 20%, the company said.

• **Standard & Poor's** (S&P's; New York) last week raised its counterparty credit and financial strength ratings on **Empire Blue Cross and Blue Shield** to triple-B from double-B. The outlook is stable, S&P's said.

• **A.M. Best** (Oldwick, NJ) has assigned an A (excellent) rating to **Blue Cross and Blue Shield of Georgia** (Atlanta). The rating reflects the company's strong position in the Georgia health market, consistently good earnings, and adequate level of capital, A.M. said. Partially offsetting these strengths are a substantial investment in equity securities, increasing over the past few years, and the pending merger with **WellPoint Health Networks**. ■

PPS

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Wardwell. "The distributive system that we are developing under the prospective payment system is fair," he added. "The hard part is going to be moving to a pricer system.

"The biggest concern that has come to the forefront lately in home health surrounding PPS is the fact that the budgetary amount to be distributed is 45% of the number that was originally published as the basis for our proposed rule," said Wardwell. "The assumption many people leapt to was that means the rates are going to be 45% lower."

But Wardwell said that does not follow at all. "In actuality, to the degree that the utilization has been reduced to the same degree as the budget estimate it was based upon, there would be no change in the rate at all."

The **Congressional Budget Office** (CBO; Washington) last week confirmed that home health spending cuts will be $69 billion over the five year period covered by the Balanced Budget Act of 1997, which is FY98 – FY00. That is more than four times what Congress originally anticipated. Total spending on Medicare home health services in 1999 was down almost 45% from in 1997 and is expected to remain largely unchanged this year, according to the CBO.

"To the degree that utilization actually went down faster than the dollars went down, you could actually see a higher rate in the final rule," Wardwell added.

Wardwell said that what actually happens when PPS goes into effect and agencies operate under the new system will govern what Congress does next. He noted the requirement under the Balanced Budget Refinement Act passed last year by Congress that six months into the home health PPS, HCFA must report to Congress whether the additional 15% reduction is still necessary.

But Wardwell said the tide is growing against the 15% reduction. "If you took a cross-section of people in our agency, as well as most people on the Hill, there is not a lot of enthusiasm for retaining that 15% reduction," he said.

If PPS saw much utilization in the first year, he said, that might change. " I could see them being less sympathetic than they are right now," said Wardwell. "But my own hypothesis is that six months into the system, we probably have at our disposal maybe three months of data, and who can tell from the first three months of data what is actually happening in that system?

"I think the last six months of the year would probably be a better benchmark for what is going to happen in the future," he added.

"The hardest thing about this is that it is not over until it is over," Wardwell cautioned. He said the agency hopes to publish a proposed rule on June 30, since July 1 falls on a Saturday. "I am certainly going to be hammering on people to do that."

In the not too distant future, he said, the proposed rule will leave his hands and go to the secretary of the **Health and Human Services Department** (Washington) and then to the **Office of Management and Budget** (Washington). "There could be a big change," warned Wardwell. "We could get slam dunked." But the likelihood is for only minor revisions, he predicted.

When IPS went into affect, providers had difficulty balancing one kind of patient against another," explained Wardwell. "The whole theory of the IPS cap was that some patients are low-care patients and some patients are high-care patients.

"One of the things we did not anticipate is the number of providers that would be at the national median," he said. "Many others concluded it was too hard to balance patients." As a result, a significant portion of the reduction in home health expenditures was not just the cap that was imposed, but providers managing to the cap, explained Wardwell.

"I think PPS is going to be much better," he predicted. He said clinicians will also like it much better because even if they have to think in terms of a cap, they will be able to think of it in terms of a case-mix adjusted cap with a 60-day episode. "I have to think this is going to be dramatically easier and better to manage," he concluded.

Wardwell said the only type of agency that will have a rough time under PPS are the roughly 10% of providers that have a high cap. "It has taken agencies, even some relatively sophisticated agencies, a while to balance this beneficiary cap with the per-visit," he said.

"What some of them got caught in unwittingly was that they reduced their utilization to try to get under the beneficiary specific cap and didn't reduce their fixed costs," he said. "Their cost per visit went up so high they got hit by the other cap. I am hoping the PPS will bring some regularity to the system," he concluded. "Certainly the case-mix alone and the outlier alone significantly reduce this issue of not having enough money in the pot." ■

See next week's HHBR for Wardwell's rundown of likely changes in the final rule for the home health PPS.

CALENDAR

• The **Illinois Home Care Council**'s (Chicago) 2000 annual conference and exposition will be March 29-31 in Oak Brook Terrace, IL. More than 300 providers and exhibitors are expected to attend. For information, call (312) 335-9922.

• The **National Association for Home Care**'s (NAHC; Washington) 2000 policy conference is April 2-5 in Washington. Also, NAHC's 19th annual meeting and HomecareExpo is Sept. 23-27 in New Orleans. For more information, call (202) 547-7424. ■