Medicare Billing Risk Perceptions of Hospitals Operating Under Corporate Integrity Agreements

David B. Pariser
Ashok B. Abbott*

Abstract

Between 1987 and 2006, the federal government recovered $18.1 billion in settlements under the False Claims Act (FCA), of which $11.5 billion or 63 percent arose from settlements in the healthcare industry. False Claims Act has become a favorite tool for the Health and Human Services/Office of Inspector General (HHS/OIG) to deter fraudulent billing practices. Under this act, healthcare providers who knowingly submit false or fraudulent claims are liable for three times the government’s loss plus a civil penalty of $5,000 to $11,000 for each false claim. HHS/OIG has issued compliance guidelines to encourage healthcare providers to develop voluntary compliance programs capable of detecting and preventing fraudulent billing practices. When the HHS/OIG investigates a healthcare provider that has allegedly submitted false or fraudulent claims to Medicare, it frequently negotiates a settlement with the provider to resolve potential liability arising from violations of the False Claims Act. The settlement usually obligates the provider to adhere to an involuntary Corporate Integrity Agreement (CIA), usually lasting five years, more restrictive and onerous than voluntary compliance programs. This paper describes HHS/OIG’s voluntary compliance guidelines, components of Corporate Integrity Agreements, and six billing schemes.

The primary purpose of the paper is to compare hospital management risk perceptions toward common and longstanding unacceptable billing schemes. The risk perceptions of hospitals operating under CIAs are compared to those not operating under CIAs. The six billing fraud schemes found to show significant differences between the two groups are billing for medically unnecessary services, upcoding, unbundling, billing for discharge in lieu of transfer of patient, over-utilization, and submission of false cost reports. The findings suggest that operating under a CIA may appropriately sensitize management about unacceptable (risky) behavior, making management more likely to identify unacceptable billing schemes than management of hospitals not operating under a CIA. These finding have important implications for internal auditors and fraud investigations engaged in planning and conducting risk assessments of hospitals.

* The authors are, respectively, Professor of Accounting and Associate Professor of Finance at West Virginia University.