



March 29, 2005

VICTORIA A. LIPNIC
ASSISTANT SECRETARY
EMPLOYMENT STANDARDS ADMINISTRATION

SUBJECT: Audit Report - Impact of Office of Workers' Compensation Programs
Medical Fee Schedule on Postal Service Medical Costs
(Report Number HM-AR-05-002)

This report presents the results of the Postal Service, Office of Inspector General's (OIG) self-initiated audit of the Department of Labor's (DOL) Office of Workers' Compensation Programs (OWCP) Medical Fee Schedule (Project Number 04YN001HM000). The overall objective of the audit was to determine the impact of the fee schedule for physicians' professional services on the Postal Service's rising medical costs for chargeback years (CBYs)¹ 1997 to 2003.² Specifically, we determined the extent to which:

1. The amounts OWCP paid medical providers exceeded the medical fee schedule for physicians' professional services (maximum allowable amounts)³ for medical charges,⁴ and the reasons.
2. Medical charges did not have maximum allowable amounts established, and the reasons.
3. OWCP's medical payments were comparable to medical payments made by the Texas Workers' Compensation Commission (TWCC)⁵ for similar services.

We concluded that overall the medical fee schedule for physicians' professional services had a positive impact on the Postal Service's medical costs. For those

¹ OWCP's Chargeback System is the mechanism by which the costs of compensation for work-related injuries and death are billed annually to employing agencies. The chargeback billing period is from July 1 in one year, to June 30 the following year.

² At the beginning of our fieldwork, medical cost data for CBY 2004 was not available.

³ The fee schedule for physicians' professional services is a list of medical codes, service descriptions, and the corresponding maximum allowable amounts.

⁴ Medical charges include procedures, services, and supplies billed by providers.

⁵ TWCC was selected for comparison purposes because a Postal Service official suggested we focus our review on states whose workers' compensation costs are high, such as Texas. In addition, TWCC used a Web site where we could enter the medical charge code number and obtain the payment amount for that charge.

charges that had a maximum allowable amount established, OWCP paid medical providers about \$939 million less than the maximum allowable amounts for CBYs 1997 to 2003. In addition, OWCP paid medical providers about \$528 million less than the amount providers billed for CBYs 1997 to 2003. Further, although some medical charges did not have maximum allowable amounts established, OWCP independently reviewed the charges, resulting in payments made at or below what the providers billed.

We could not determine the extent to which OWCP's medical payments were comparable to medical payments made by TWCC because the Postal Injury Compensation System (PICS)⁶ did not show the type of facility where the medical service was provided. This is a key element used by the Texas system for determining the amounts allowed for medical services. According to an OWCP official, the new Central Bill Processing service will capture the "Place of Service" (type of facility) beginning in fiscal year 2006.

Background

Office of Workers' Compensation Programs

OWCP is responsible for adjudicating claims and paying compensation, medical, and death benefits for injured federal workers, including Postal Service employees. The Federal Employees' Compensation Act (FECA) covers all medical care that an employee needs to recover from the effects of a work-related injury, including hospitalization, nursing services, prosthetic appliances, and the services of an attendant when required for severe injuries. Payments for medical services are subject to a schedule of maximum allowable amounts. These benefits are paid from OWCP's Employees' Compensation Fund, which is later reimbursed by federal agencies through the chargeback billing process.

OWCP Medical Fee Schedule

On behalf of the Postal Service, OWCP pays medical providers a fee for each covered medical service provided to Postal Service employees who have been injured on the job.⁷ Medical services covered by the fee schedule for physicians' professional services include payments for medical and other health services furnished by physicians and other providers for work-related injuries. OWCP regulations state these costs shall not exceed a maximum allowable amount for such services, as determined by the director, OWCP. Employees do not have to pay the difference between the maximum allowable amount set by the fee schedule for physicians' professional services and the amount charged by the provider.

⁶ The PICS database is a historical repository of workers' compensation transactions related to Postal Service employees. PICS data is provided to the OIG by the Postal Service who obtains the data from DOL.

⁷ Employees on the periodic rolls have permanent disabilities or injuries that have lasted, or are expected to last, for over one year.

OWCP has established other fee schedules and cost-monitoring mechanisms that were not evaluated in this audit.

Current Procedural Terminology Codes

Each medical service is identified using the American Medical Association's (AMA) uniformly accepted coding system, called the Physicians' Current Procedural Terminology (CPT) codes.⁸ The AMA developed CPT codes in 1966, and the codes are updated annually to reflect changes in medical practices and technology.

Postal Service Workers' Compensation Costs

The Postal Service was the largest participant in DOL's OWCP in CBY 2004, representing about 30 percent of the total federal workforce that participated. It was also the largest payee to OWCP with approximately \$830 million in payments for the same year. This is more than 35 percent of the \$2.3 billion in total federal workers' compensation payments. In addition to the \$830 million, the Postal Service also paid chargeback billing costs for the old Post Office Department of \$22.9 million, and an administrative fee⁹ of \$44.5 million. This brings the total CBY 2004 costs to \$897.4 million as shown in Table 1.

Table 1. Postal Service Total Workers' Compensation Costs and Medical Costs for CBY 2004

Type of Cost	CBY 2004 (in millions)
Postal Service Workers' Compensation and Medical Costs	\$830.0
Post Office Department Workers' Compensation and Medical Costs	22.9
Administrative Fee	44.5
TOTAL	\$897.4

Source: DOL OWCP Chargeback Billing Summary.
Note: Costs were rounded up.

Postal Service Medical Costs

According to DOL's OWCP Chargeback Billing Summary, OWCP government-wide medical costs were \$649.9 million for CBY 2004. Of the \$649.9 million, the Postal Service's medical costs were \$308.4 million for the same period (almost 50 percent).

⁸ Medicare's complete coding system is known as the Health Care Financing Administration's Common Procedural Coding System. In addition to CPT codes, the system includes codes for medical equipment, prescription drugs, other services, and items not covered by the AMA CPT codes.

⁹ The Postal Service's administrative fees increased 35.3 percent, from \$32.9 million in CBY 2000 to \$44.5 million in CBY 2004.

As shown in Table 2, the Postal Service's medical costs increased from \$243.8 million in CBY 2000 to \$308.4 million in CBY 2004 (26 percent). However, there was a slight decrease (5 percent) in medical costs, from \$324.8 million in CBY 2003 to \$308.4 million in CBY 2004.

Table 2. Postal Service's Medical Costs - CBYs 2000 to 2004

CBY	Medical		Percentage Increase of Medical Costs	Average Cost per Case	Percentage Increase of Cost per Case
	Costs	Number of Cases			
2004	\$308,369,576	124,268	-5%	\$2,481.48	1%
2003	\$324,773,251	132,012	7%	\$2,460.18	7%
2002	\$303,079,919	131,363	11%	\$2,307.19	8%
2001	\$274,163,608	128,134	13%	\$2,139.66	8%
2000	\$243,796,782	122,699	-----	\$1,986.95	-----

Source: DOL OWCP Chargeback Billing Summary.

Note: Costs, numbers, and percents were rounded up.

Objectives, Scope, and Methodology

We discuss our objectives, scope, and methodology in Appendix B in detail.

Prior Audit Coverage

We did not identify any prior audits related to the objectives of this audit.

Audit Results

Overall, the medical fee schedule for physicians' professional services and other fee schedules used by OWCP had a positive impact on the Postal Service's medical costs. Specifically, as shown in Table 3, for those charges that had a maximum amount established, OWCP paid medical providers about \$939 million less than the maximum allowable amounts for CBYs 1997 to 2003.

Table 3. Charges With Maximum Allowable Amounts - CBYs 1997 to 2003

CBY	Maximum Allowable Amount	Total Paid by OWCP on Behalf of the Postal Service	Difference Between Maximum Allowable Amount and Total Paid	Number of Charges	Average Cost Per Charge
1997	\$180,446,742	\$98,668,662	\$81,778,080	1,571,756	\$62.78
1998	\$194,718,395	\$105,873,577	\$88,844,818	1,544,637	\$68.54
1999	\$276,788,043	\$129,218,921	\$147,569,122	1,690,156	\$76.45
2000	\$368,008,783	\$181,020,709	\$186,988,074	2,052,664	\$88.19
2001	\$378,183,358	\$199,401,093	\$178,782,265	2,161,366	\$92.26
2002	\$327,162,983	\$203,029,782	\$124,133,201	2,203,306	\$92.15
2003	\$345,520,727	\$214,624,331	\$130,896,396	2,253,067	\$95.26
TOTAL	\$2,070,829,031	\$1,131,837,075	\$938,991,956	13,476,952	\$83.98

Source: PICS.

Note: Costs were rounded up.

Also, as shown in Table 4, although providers charged OWCP \$2.2 billion for a seven-year period, OWCP paid them \$1.7 billion. This is about \$528 million less than the amount charged.

Table 4. Total Workers' Compensation Paid by OWCP on Behalf of the Postal Service for CBYs 1997 to 2003 (Includes Charges With and Without a Maximum)

CBY	Total Charged by Providers	Total Paid by OWCP on Behalf of the Postal Service	Difference Between the Total Charged by Providers and Total Paid
2003	\$462,852,912	\$326,788,895	\$136,064,016
2002	\$408,820,000	\$304,611,836	\$104,208,165
2001	\$356,996,533	\$275,400,557	\$81,595,976
2000	\$315,201,589	\$245,902,039	\$69,299,550
1999	\$255,522,037	\$201,938,561	\$53,583,476
1998	\$235,278,431	\$191,158,105	\$44,120,326
1997	\$215,031,644	\$176,040,550	\$38,991,094
TOTAL	\$2,249,703,146	\$1,721,840,543	\$527,862,603

Source: PICS.

Note: Numbers and costs were rounded up.

Medical Charges Without Maximum Allowable Amounts

Some medical charges did not have maximum allowable amounts established under the fee schedule for physicians' professional services. However, these charges were subject to other cost containment measures including other fee schedules; edits for duplicate billing; reviews for appropriateness of services based on claimant's age, gender, and accepted condition; and edits to prevent unbundling of procedures and to prevent billing for mutually exclusive procedures. Independent reviews are also performed based on prevailing reasonable and customary charges in the area where the service was provided. In fact, the data showed that OWCP paid providers \$7 million less than they billed. OWCP reviewed charges and applied fee schedules to inpatient hospital bills and to pharmacy bills separate from the OWCP Medical Fee Schedule for physicians' professional services, or maximums otherwise established under its

authority to do so. This resulted in payments made at or below what the providers billed.

As shown in Table 5, of the \$1.7 billion paid by OWCP on behalf of the Postal Service (see Table 3), \$590 million (34 percent) from CBYs 1997 to 2003 represented medical charges that did not have maximum allowable amounts established by OWCP.

Table 5. Charges Without Maximum Allowable Amounts - CBYs 1997 to 2003

CBY	Total Charged by Providers	Total Paid by OWCP on Behalf of the Postal Service	Total Charged Minus Total Paid	Number of Charges	Average Cost Per Charge
2003	\$115,306,290	\$112,164,565	\$3,141,725	680,652	\$164.79
2002	\$103,682,504	\$101,582,054	\$2,100,450	675,888	\$150.29
2001	\$77,146,742	\$75,999,463	\$1,147,279	546,930	\$138.96
2000	\$65,223,964	\$64,881,330	\$342,634	479,089	\$135.43
1999	\$72,842,395	\$72,719,640	\$122,755	547,237	\$132.89
1998	\$85,494,054	\$85,284,528	\$209,526	539,415	\$158.11
1997	\$77,710,652	\$77,371,889	\$338,763	528,845	\$146.30
TOTAL	\$597,406,601	\$590,003,469	\$7,403,132	3,998,056	\$147.57

Source: PICS.

Note: Costs were rounded up.

According to DOL officials and the May 2004 OWCP Medical Fee Schedule for physicians' professional services, the reasons some medical procedures did not have maximum allowable amounts established varied. For example, DOL officials told us some medical procedures do not have Relative Value Units (RVU)¹⁰ assigned by Medicare and as such they are independently reviewed and may be paid at or below what the provider charged.

Another reason is that some charges, such as hospital inpatient, are determined by fee schedules other than the OWCP Medical Fee Schedule for physicians' professional services, and are subject to a reimbursement schedule based on the Medicare Prospective Payment System. That system assigns services to diagnostic-related groups and adjusts rates for individual hospitals according to their specific cost index. See Appendix C for a description of other fee schedules and services.

Further, where the time, effort, and skill required to perform a particular procedure vary widely from one situation to the next, OWCP may construct its own RVU values based on available data. In this case, the allowable charge for the procedure will be set individually based on consideration of a detailed medical report and other evidence. At its discretion, OWCP may set fees without regard to schedule limits for specially authorized consultant examinations, for examinations performed, and for other specially authorized services.

¹⁰ RVUs represent the relative skill, effort, risk, and time required to perform a medical procedure. RVUs are based on three components related to the cost of providing the service described in each CPT code. The three components are a physician/practitioner work component, a practice expense component, and a professional liability insurance expense component.

Management's Comments

OWCP management reviewed the report and had no comments. Management also stated they appreciated the cooperation and courtesies afforded their managers and staffs by the audit team, and they thanked the OIG for the opportunity to comment.

We also appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Chris Nicoloff, Director, Human Capital, or me at (703) 248-2300.

/s/ Mary W. Demory

Mary W. Demory
Deputy Assistant Inspector General
for Core Operations

Attachments

cc: Suzanne F. Medvidovich
Dewitt O. Harris
Gordon Heddell
Shelby Hallmark
Steven R. Phelps

APPENDIX A. ABBREVIATIONS

AMA	American Medical Association
CBY	Chargeback Year
CPT	Current Procedural Terminology
DOL	Department of Labor
FECA	Federal Employees' Compensation Act
OIG	Office of Inspector General
OWCP	Office of Workers' Compensation Programs
PICS	Postal Injury Compensation System
RVU	Relative Value Units
TWCC	Texas Workers' Compensation Commission

APPENDIX B. OBJECTIVES, SCOPE, AND METHODOLOGY

The overall objective of the review was to determine the impact of OWCP's medical fee schedule for physicians' professional services on the Postal Service's rising medical costs for CBYs 1997 to 2003. Specifically, we determined the extent to which:

1. The amounts OWCP paid medical providers exceeded the medical fee schedule for physicians' professional services (maximum allowable amounts) for medical charges, and the reasons.
2. Medical charges did not have maximum allowable amounts established, and the reasons.
3. OWCP's medical payments were comparable to medical payments made by TWCC for similar services.

To accomplish our objectives, we reviewed and analyzed medical charges extracted from PICS for CBYs 1997 to 2003. We also reviewed OWCP policies and procedures and interviewed OWCP officials.

To determine the extent to which the amounts OWCP paid medical providers exceeded the medical fee schedule for physicians' professional services (maximum allowable amounts), we identified charges that had a maximum amount established and calculated the dollar difference between those amounts and what OWCP paid on behalf of the Postal Service. To determine the reasons why the maximum amounts were exceeded, we reviewed OWCP policies and procedures and interviewed OWCP officials.

To determine the extent to which medical charges did not have maximum allowable amounts established, we used, as an indicator, those charges that had zero as their maximum allowable amount. We discussed those charges that had zero as the maximum allowable amount with OWCP officials. To determine the reasons why there were no maximum allowable amounts (or why zero was the maximum allowable amount); we reviewed OWCP policies and procedures and interviewed OWCP officials.

We could not determine the extent to which OWCP's medical payments were comparable to medical payments made by the TWCC because the PICS data did not show the type of facility where the medical service was provided. This was a key element in the Texas system when determining the allowed amount. We selected TWCC because a Postal Service official suggested we focus our review on states whose workers' compensation cost is high, such as Texas. In addition, TWCC used a Web site where we could enter the medical charge code number and obtain the payment amount for that charge.

This audit was conducted from August 2004 through March 2005 in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate DOL, OWCP, and Postal Service management officials and included their comments where appropriate.

Data Testing and OWCP Formula

For those charges that had zero as the maximum allowable amount, we tested the data to determine if the records contained data needed to apply the OWCP formula. For those records where the maximum allowable amount did not equal zero, after applying the formula, we determined if the amounts OWCP paid were greater than or less than the amount to be paid based on the application of the OWCP formula. To accomplish this, we used CBY 2003 charges that had AMA CPT codes. We compared the difference between the amounts OWCP paid (per the PICS data) to what the maximum allowable amount would be based on the OWCP formula.

The OWCP formula can be used to determine maximum allowable amounts. Each procedure subject to a maximum allowable amount under the OWCP Medical Fee Schedule for physicians' professional services has been assigned three relative values: work (W), practice expense (PE), and malpractice expense (MP). Each of these three values is multiplied by three related values for geographic variance in procedure costs called geographic practice cost index values: work (w), practice expense (pe), and malpractice expense (mp). The resultant value is multiplied by a conversion factor (CF) to convert it into a dollar amount. The OWCP formula is:

$$\text{Maximum Allowable Amount} = [(W_{rvu} * w_{gpci}) + (PE_{rvu} * pe_{gpci}) + (MP_{rvu} * mp_{gpci})] * CF$$

In CBY 2003, there were 114,103 charges that had zero as the maximum allowable amount. We tested the 114,103 charges against what the maximum allowable amount would have been had the formula been applied. Our testing showed that, of the 114,103 charges, we were able to calculate (or apply the formula) to 113,355 (99 percent) of the 114,103 charges because the records contained the data needed to apply the formula. Of the 113,355 charges, the data showed that the PICS data's maximum allowable amount of zero for 93,195 charges (82 percent) matched the maximum allowable amount when the formula was applied (see the table below).

After applying the formula, there were 20,160 charges that had a maximum allowable amount that was not equal to zero. Of the 20,160, the amount OWCP paid was:

- Less than or equal to the amount to be paid, according to the formula for 12,237 charges.
- Greater than the amount to be paid, according to the formula, for 7,923.

Total Number of Charges	114,103
Could not apply the formula.	748 (There was no match for either the CPT code or the ZIP Code)
Could apply the formula.	113,355
Number of Charges – Formula Applied	113,355
Data did not match PICS data.	20,160 (Calculated maximum allowable amount did not equal zero)
Data matched PICS data.	93,195 (Calculated maximum allowable amount did equal zero)
Number of Charges – Calculated Maximum Allowable Did Not Equal Zero	20,160
Amount OWCP paid less than or equal to the amount paid based on formula applied.	12,237
Amount OWCP paid greater than the amount paid based on formula applied.	7,923

Based on the results of this test, we concluded the data were sufficiently reliable to be used in meeting the objectives. We discussed our observations and conclusions with appropriate management officials and included their comments where appropriate.

APPENDIX C. OTHER FEE SCHEDULES AND SERVICES

The payments of medical bills are made in accordance with medical fee schedules established by OWCP. The OWCP Medical Fee Schedule is applicable to charges for services by medical professionals. OWCP also applies a separate fee schedule to certain durable medical equipment, supplies, and other items or services covered under the program. The services covered by other fee schedules are for one of the following: (1) Inpatient Services, (2) Outpatient Services, (3) Ambulatory Surgical Center Services, (4) Prescription Drugs, (5) Other Services, and (6) Home Health Services.

Inpatient Services: Inpatient hospital services provided under FECA are subject to a reimbursement schedule based on the Medicare Prospective Payment System. That system assigns services to diagnostic-related groups and adjusts rates for individual hospitals according to their specific cost index. OWCP uses the Medicare diagnostic-related groups program and their hospital cost indices, but has devised its own reimbursement formulas. Inpatient services not covered under the Medicare Prospective Payment System are reimbursed under a formula that is based on the cost-to-charge ratio data tables published by the Centers for Medicare and Medicaid Services for rural and urban hospitals in each state.

Outpatient Services: Ancillary charges for hospital outpatient services (emergency room, recovery room, operating room) are paid under the appropriate Revenue Center code. All outpatient professional services must be billed under the appropriate CPT/Healthcare Procedure Coding System/OWCP procedure codes.

Ambulatory Surgical Center Services: Bills from Ambulatory Surgical Centers are paid using a multiplier of 175 percent for each service charged, with the highest priced procedures to be paid at 100 percent and secondary, tertiary and all other procedures at 50 percent of the maximum allowable amounts. Actual payment is based on the lesser of the calculated payment rate or the billed charged.

Prescription Drugs: The maximum allowable amounts for pharmacy billings are based on the Red Book Average Wholesale Prices for prescription drugs plus a dispensing fee, or the billed amount, whichever is less.

Other Services: OWCP will continue to exercise its current authority to establish maximum allowable amounts for certain services, items of durable medical equipment, facility use fees, and other charges not currently on the schedule. Providers will be notified of major schedule changes. All fees without an OWCP established maximum allowable amount are subject to review based on prevailing reasonable and customary charges in the area where the service was provided.

Home Health Services: Home health services are paid under the appropriate Healthcare Common Procedure Coding System codes.

APPENDIX D. MANAGEMENT'S COMMENTS

U.S. Department of Labor

Assistant Secretary for
Employment Standards
Washington, D.C. 20210



MAR 17 2005

MEMORANDUM FOR MARY W. DEMORY
Deputy Assistant Inspector General
for Core Operations
United States Postal Service

FROM:


VICTORIA A. LIPNIC

SUBJECT:

Draft Report—OWCP Medical Fee Schedule

This responds to your March 2, 2005 request to review and comment on the draft audit report entitled *OWCP Medical Fee Schedule*. We have reviewed the report and have no comments. We appreciate the cooperation and courtesies that were afforded to our field and headquarters' managers and staffs by the audit team. We thank you for the opportunity to comment.