Understanding how Medicare pays for inpatient and outpatient surgery is critical to your hospital’s revenue. Medicare stipulates that certain procedures will be paid only if performed on an inpatient basis. How can you avoid pitfalls of billing for these inpatient-only procedures?

**OR Manager** asked Keith Siddel, MBA, an expert on health care business operations, to respond to frequent questions. He is CEO of HRM Consulting, Creede, Colorado.

**Q** What qualifies as an inpatient-only procedure? How should we handle a change from an outpatient to an inpatient procedure that occurs during surgery?

**Siddel**: To explain the background on this issue, Medicare designates that for safety reasons, particular procedures should be performed only on an inpatient basis. The thinking is that it is not safe to send patients home the same day.

For procedures on the inpatient-only list, Medicare says, “If you don’t do this as an inpatient procedure, we won’t pay.” Not only do you not get paid for the surgery but also for any other services associated with that episode of care, such as the IV line inserted before the patient went to the OR.

The inpatient-only list is updated every year by the Centers for Medicare and Medicaid Services (CMS) as part of the Medicare Outpatient Prospective Payment System (OPPS) rule. This year, the proposed OPPS rule was released early on July 1, 2009. A final rule is expected this fall. The rule is effective for discharges taking place after January 1, 2010. The HCPCS codes paid only as inpatient procedures are found in Addendum E.

In the final rule, CMS will list all of the comments it received and discuss its decisions for updating the inpatient-only list. Once the final rule is published, all of the inpatient-only procedures must be done on an inpatient basis.

**Be alert to procedure changes**

Most hospitals do a good job of screening for these inpatient-only procedures. For example, the scheduling software usually notes if a patient is scheduled for such a procedure.

If a hospital loses reimbursement for this reason, 90% of the time it is because the physician makes a decision that changes the original procedure. For example, the physician might say, “This looks more complicated than I thought. Let’s expand it.” That may move the case into an inpatient-only mode.

When that happens, someone in the OR needs to alert the appropriate
person and say, “By the way, we not only did the scheduled procedure. We also did B or C procedure.” Then someone needs to check the procedure against the inpatient-only list. If the procedure is inpatient only, a manager needs to go to the physician and say, “This is inpatient only. Will you write an order to admit this patient overnight?”

Avoiding denials

The real problem occurs when the change isn’t caught. The patient remains an outpatient and goes home the same day rather than being admitted. The record is coded and billed, and the claim is denied. There is really not an appeal process, even if the procedure was done as an emergency.

CMS has declined to authorize an appeal process or to provide a modifier to address an unscheduled inpatient-only procedure. CMS has also said no to a process that would at least pay a hospital for ancillary services associated with an unscheduled inpatient-only case. This is what CMS said in the final 2009 OPPS rule: “We understand hospitals’ dilemma when a decision is made intraoperatively to perform an unscheduled procedure. However, we continue to believe it is important for hospitals to educate physicians on Medicare services paid under the outpatient prospective payments system to avoid inadvertently providing services in a hospital setting that would be paid only during an inpatient stay, because we believe that the hospital outpatient department is not an appropriate site of service for these procedures.”

Basically, CMS said it is the hospital’s problem, and the hospital has to educate the physicians.

*The Medicare 2010 OPPS final rule will be posted at [www.cms.hhs.gov/center/hospital.asp](http://www.cms.hhs.gov/center/hospital.asp)*