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Highlights

Highlights of GAO-05-656, a report to the Chairman, Committee on Finance, U.S. Senate

MEDICARE

More Effective Screening and Stronger Enrollment Standards Needed for Medical Equipment Suppliers

Why GAO Did This Study

In fiscal year 2004, the Centers for Medicare & Medicaid Services (CMS) estimated that Medicare improperly paid $900 million for durable medical equipment, prosthetics, orthotics, and supplies—in part due to fraud by suppliers. To deter such fraud, CMS contracts with the National Supplier Clearinghouse (NSC) to verify that suppliers meet 21 standards before they can bill Medicare. NSC verifies adherence to the standards through on-site inspections and document reviews. Recent prosecutions of fraudulent suppliers suggest that there may be weaknesses in NSC's efforts to screen suppliers or in the standards. In this report, GAO evaluated: 1) NSC's efforts to verify suppliers' compliance with the 21 standards, 2) the adequacy of the standards to screen suppliers, and 3) CMS's oversight of NSC's efforts.

What GAO Recommends

GAO suggests that the Congress consider whether suppliers found to be noncompliant should wait a specified period of time before having their billing numbers reissued. GAO is also making several recommendations to the CMS Administrator to improve NSC's licensure verification and on-site inspections, the supplier standards, and CMS's oversight of NSC. CMS generally concurred with all of the recommendations and provided information on the actions it was taking to implement each of them.

www.gao.gov/cgi-bin/getrpt?GAO-05-656.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Leslie G. Aronovitz at (312) 220-7600 or aronovitzl@gao.gov.

What GAO Found

NSC's efforts to verify compliance with the 21 standards are insufficient because of weaknesses in two key screening procedures—checking state licensure and conducting on-site inspections. NSC's licensure check is ineffective because it relies on self-reported information about the items suppliers intend to provide to beneficiaries and does not match this against actual billing later. We found a total of 22 suppliers in Florida, Louisiana, and Texas that had each been paid at least $1,000 by Medicare in 2004 for providing oxygen services, but did not have the required state license. Further, more than half of the almost $107 million paid by Medicare for custom-fabricated orthotics and prosthetics in Florida in 2004 went to suppliers that had not had their licenses checked. At least 46 of these suppliers were under investigation for fraud as of April 2005. NSC's on-site inspections also have weaknesses that limit their effectiveness. We estimate that NSC did not conduct required on-site inspections of 605 suppliers. Further, when conducting on-site inspections, NSC does not require its inspectors to examine beneficiary files to assess whether suppliers are meeting the standard to maintain proof of delivery or check whether suppliers have a real source of inventory, as required by Medicare.

Medicare's 21 standards are currently too weak to be used effectively to screen medical equipment suppliers. Although Medicare paid suppliers about $8.8 billion in fiscal year 2004, the program's 21 standards do not include measures related to supplier integrity and capability analogous to those that federal agencies generally apply to prospective contractors or those used by at least two state Medicaid programs for their suppliers. For example, in sworn testimony before the Committee on Finance in April 2004, an individual who pleaded guilty to Medicare fraud described how she was able to open a sham business with $3,000—despite lacking the experience and the financial, technical, and managerial resources to operate a legitimate supply company. If an agency finds a company does not meet federal contracting standards for integrity and capability, the agency may decline to award it a contract. If a contractor performs inadequately, the agency can terminate the contract. Further, agencies may disqualify a contractor from competing for other federal contracts. In addition, a California supplier that is disenrolled from Medicaid for failing to meet state requirements cannot reenroll for 3 years. In contrast, if a Medicare supplier can later demonstrate compliance with the 21 standards, CMS readmits it into the program.

CMS's oversight has not been sufficient to determine whether NSC is meeting its responsibilities in screening and enrolling DMEPOS suppliers. For example, CMS was unaware—until we informed the agency—that NSC had not conducted all required on-site inspections for suppliers. Moreover, while CMS has established performance goals for NSC related primarily to processing applications, it has not established a method to evaluate NSC's success in identifying noncompliant and fraudulent suppliers and recommending that they be removed from the program.