



Highlights of [GAO-07-59](#), a report to the Ranking Minority Member, Committee on Finance, U.S. Senate

## Why GAO Did This Study

The Centers for Medicare & Medicaid Services (CMS)—the agency that administers Medicare—estimated that the program made about \$700 million in improper payments for durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) from April 1, 2005, through March 31, 2006. To protect Medicare from improper DMEPOS payments, CMS relies on three Program Safeguard Contractors (PSC), and four contractors that process Medicare claims, to conduct critical program integrity activities. GAO was requested to examine CMS's and CMS's contractors' activities to prevent and minimize improper payments for DMEPOS, and describe CMS's oversight of PSC program integrity activities. To do this, GAO analyzed DMEPOS claims data by supplier and item to identify atypical, or large, increases in billing; reviewed CMS documents; and conducted interviews with CMS and contractor officials. GAO focused its work on contractors' automated prepayment controls and described related claims analysis functions.

## What GAO Recommends

GAO recommends that CMS require its contractors to develop automated prepayment controls to identify potentially improper claims when supplier billing reaches atypical levels and consider adopting the most cost-effective controls of other contractors. CMS concurred with the recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-07-59](http://www.gao.gov/cgi-bin/getrpt?GAO-07-59).

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

# MEDICARE

## Improvements Needed to Address Improper Payments for Medical Equipment and Supplies

### What GAO Found

To prevent and minimize improper DMEPOS payments, CMS's contractors conduct program integrity activities, which include performing medical reviews of certain claims before they are paid to determine whether the items meet criteria for Medicare coverage. As part of their efforts, CMS's contractors responsible for medical review use automated prepayment controls to deny claims that should not be paid or identify claims that should be reviewed. However, GAO found three shortfalls in these automated prepayment controls that make the Medicare program vulnerable to improper payments.

- Contractors responsible for medical review did not have automated prepayment controls in place to identify questionable claims that are part of an atypically rapid increase in billing.
- In some instances, these contractors did not have automated prepayment controls in place to identify claims for items unlikely to be prescribed in the course of routine quality medical care. CMS has recently begun an initiative to add controls of this kind for some DMEPOS items.
- CMS does not require these contractors to share information on the most effective automated prepayment controls of the other contractors or consider adopting them. For example, Medicare might have saved almost \$71 million in less than 2 years if one effective automated prepayment control designed to prevent Medicare from paying for more than one home-use hospital bed per month for a beneficiary, which was used by one of these contractors, had been used by the others.

CMS oversees the PSCs' program integrity activities by providing written manuals and contracts to guide their work. As part of its oversight, CMS is implementing an annual contractor performance evaluation process, based on three evaluation tools, to assess each PSC's performance. CMS officials said that the agency will use the results of these evaluations to determine two things: whether to renew a PSC's contract, and whether a PSC may earn award fees—a monetary reward for good performance—in addition to the regular payments it receives under its contract.