

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**Medicare Allowed Charges for
Orthotic Body Jackets**



**JUNE GIBBS BROWN
Inspector General**

**MARCH 2000
OEI-04-97-00391**

OFFICE OF INSPECTOR GENERAL

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TABLE OF CONTENTS

	PAGE
EXECUTIVE SUMMARY	1
INTRODUCTION	3
FINDINGS	
Medicare Pays More Than Medicaid	6
Medicare Often Pays More Than Tricare	7
Medicare Reimbursement Rates Exceeded Suppliers Cost	9
RECOMMENDATIONS	11
AGENCY COMMENTS	12
APPENDICES	
A: Potential Savings	13
B: Agency Comments	15

EXECUTIVE SUMMARY

PURPOSE

To analyze the reasonableness of Medicare allowed charges for orthotic body jackets coded L0430.

BACKGROUND

Medicare covers spinal orthoses only when ordered by a physician. Payments for orthotics are based on a fee schedule. Payments are either the fee schedule rate or the actual charge billed by the supplier, whichever is lower.

In 1999, the OIG reported that although all orthotic devices claimed as code L0430 in 1996 were eligible for some level of Medicare reimbursement, suppliers had upcoded 42 percent of the claims. This study is a follow-on to the 1999 report.

FINDINGS

Medicare Pays More for L0430 Orthotic Body Jackets than Medicaid

On average, in the eight States we reviewed, Medicare rates exceeded the Medicaid rate by 21 percent.

Medicare Often Pays More for L0430 Orthotic Body Jackets than Tricare

For half of the eight States we reviewed, the Medicare reimbursement rate exceeded Tricare (formerly CHAMPUS) rates by an average of 7.4 percent.

Medicare Reimbursement Rates Greatly Exceeded the Prices Suppliers Paid for Orthotic Body Jackets

The Medicare allowed charge, compared to suppliers' costs for code L0430 devices, resulted in a mark-up in cost ranging from 54 percent to 829 percent. Therefore, Medicare's allowed charges for orthotic body jackets sold under Medicare code L0430 may be allowing excessive profits for some suppliers.

We defined mark-up as the difference between the supplier invoice cost and the Medicare allowed charge.

RECOMMENDATION

The Balanced Budget Act of 1997 gave HCFA greater flexibility in determining appropriate reimbursement rates when rates are found to be grossly excessive, deficient, or not inherently reasonable. That inherent reasonableness authority was limited by a provision of the Balanced Budget Refinement Act of 1999. However, we continue to support the need for more reasonable Medicare prices for orthotic body jackets.

Medicare allowed charge resulted in mark-ups which ranged from 54 percent to 832 percent. Such Medicare rates could allow excessively high profits in some instances. Both State Medicaid agencies and Tricare have shown that suppliers will make L0430 orthotic body jackets available to government beneficiaries at lower prices than what Medicare pays.

Therefore, we recommend that HCFA:

determine the appropriateness of Medicare allowed charges for orthotic body jackets and adjust Medicare reimbursement accordingly.

Depending on what HCFA determines to be a reasonable mark-up, Medicare and its beneficiaries could have saved \$14,212 if the mark-up had been limited to 500 percent for the 45 orthotic devices in our sample. If the mark-up had been limited to 100 percent, the savings would have been \$48,174. Projected to the Medicare universe the potential savings would be between \$227,380 and \$770,780.

AGENCY COMMENTS

The Administrator, Health Care Financing Administration commented on our draft report.

She noted that the Balanced Budget Refinement Act of 1999 precludes HCFA from using its inherent reasonableness authority to change Medicare allowed charges for orthotic body jackets. Appendix B contains the full text of HCFAs comments.

We modified our recommendation to reflect the limitations in HCFAs authority. We are pleased that HCFA agreed to review the appropriateness of allowed charges for orthotic body jackets once they issue their new final rule on its inherent reasonableness authority.

INTRODUCTION

PURPOSE

To analyze the reasonableness of Medicare allowed charges for orthotic body jackets coded L0430.

BACKGROUND

Medicare Coverage of Orthotic Body Jackets

Medicare covers spinal orthoses only when specific conditions are met. They must be ordered by a physician to reduce pain by restricting mobility of the trunk, to facilitate healing following an injury or surgical procedure on the spine, or to support weak spinal muscles or a deformed spine.

Medicare payments for durable medical equipment, orthotics, and prosthetics are based on a fee schedule. Payments are either the fee schedule rate or the actual charge billed by the supplier, whichever is lower. The fee schedule methodology uses historical data to determine an appropriate reimbursement rate. Fee schedules are updated year to year, based on the consumer price index or as directed by legislation.

Previous Office of Inspector General Studies on Orthoses

In 1994, the Office of Inspector General (OIG) reported that 95 percent of claims submitted in 1991 for orthotic body jackets coded L0430 were non-legitimate and should not have been paid.¹ The devices supplied were usually nothing more than a seat cushion for a wheel chair patient. A companion report² described suppliers' marketing practices for orthotic body jackets.

In 1997, the OIG reported that at least 19 percent of orthotics claimed for Medicare reimbursement were medically unnecessary.³

¹ Medicare Payments for Orthotic Body Jackets (OEI-04-92-01080)

² Marketing of Orthotic Body Jackets (OEI-04-92-01081)

³ Medicare Payments for Orthotics (OEI-02-95-00380)

In 1999, the OIG reported that although all orthotic devices claimed as code L0430 in 1996 were eligible for some level of Medicare reimbursement, suppliers had upcoded 42 percent of the claims.⁴

As part of our 1999 study we obtained supplier invoices. The invoices disclosed the amount that suppliers' paid for orthotic body jackets. The suppliers' costs raised questions as to the appropriateness of Medicare allowed charges. To obtain some insight into the reasonableness of Medicare allowed charges we examined suppliers' mark-up. We did so by comparing suppliers costs to the Medicare allowed charge. We also looked at reimbursement rates of other government payers.

METHODOLOGY

We compared Medicare 1998 L0430 reimbursement rates to 1998 rates for Medicaid and Tricare (formerly CHAMPUS). For our comparison, we chose five States that account for approximately 40 percent of Medicare expenditures and beneficiaries: California, Texas, New York, Florida, and Illinois. To add variation to our analysis, we also included three smaller States: Georgia, Connecticut, and Massachusetts. We selected Medicaid and Tricare for comparison because, like Medicare, they are public payers. We obtained reimbursement rates and rate setting methodology from pricing representatives of State Medicaid and Tricare organizations. We then compared those rates to Medicare allowed charges.

To get additional insight into the reasonableness of Medicare reimbursement for code L0430 orthotic body jackets we determined suppliers' mark-up by comparing invoice costs to the Medicare allowed charge.

To do this we reviewed a 5 percent sample of claims for code L0430 contained in HCFA's 1996 National Claims History File. This sample consisted of 302 L0430 claims which had been filed in 1996. We dropped 3 of the 302 claims because we could not locate the address for the supplier. This left us with a sample of 299 paid claims which represented 126 suppliers and 289 beneficiaries. Ten beneficiaries in our sample received two body jackets each. We surveyed the 126 suppliers by mail questionnaire.

Of 85 suppliers who responded to our survey, 44 (51.8 percent) provided requested invoices showing how much suppliers paid manufacturers for the devices they supplied to Medicare beneficiaries. The invoices enabled us to determine the amount that Medicare allowed charges exceeded suppliers' costs for orthotic devices (i.e., percent mark-up). The invoices represented 122 claims or devices.

Because our 1999 inspection, *Medicare Payments for Orthotic Body Jackets* (OEI-04-97-00390), showed that 42 of the 122 devices had been up-coded by suppliers, we removed

⁴ Medicare Payments for Orthotic Body Jackets (OEI-04-97-00390)

them from our review. Therefore, our final analysis consisted of 80 orthotic body jacket claims from 24 suppliers.

Finally, we interviewed HCFA officials who are responsible for the reimbursement and payment for orthotics and prosthetics, pricing representatives from the Region C Durable Medical Equipment Regional Carrier (DMERC), the coding staff from the Statistical Analysis Durable Medical Equipment Regional Carrier (SADMERC), officials from the American Orthotic and Prosthetic Association (AOPA)--the trade organization which represents the industry, and numerous licensed orthotists.

We did our inspection between September 1997 and June 1999. We conducted the inspection in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

Medicare pays more for L0430 orthotic body jackets than Medicaid

Medicare payments exceeded Medicaid payments by 21 percent

Medicaid is a jointly funded cooperative venture between the Federal and State governments to assist States in the provision of adequate medical care to eligible needy persons. All of the States in our analysis reimbursed for an L0430 orthotic body jacket.

On average, in the eight States we reviewed, the Medicare rates exceeded the Medicaid rate by 21 percent. The Medicaid rates ranged from a high of \$1,073 in Texas to a low of \$399 in Florida which respectively is 5.7 percent and 61.7 percent lower than the Medicare rates in those same States.

Table 1
Comparison of Medicare and Medicaid Reimbursement Rates
for Orthotic Body Jackets

	Medicare Allowed Charge	Medicaid Allowed Charge	% Difference from Medicare
TX	\$1,138	\$1,073	- 5.71
IL	\$1,136	\$976	- 14.1
CA	\$1,122	\$690	- 38.5
GA	\$1,042	\$938	- 10.0
FL	\$1,042	\$399	- 61.7
NY	\$1,036	\$900	- 13.1
MA	\$981	\$864	- 11.9
CT	\$981	\$883	- 10.0

State Medicaid rates are partially based on Medicare rates

Each State has a distinct history and methodology for the way in which reimbursement for orthotics and prosthetics is determined. Most States noted that orthotic body jackets are not products they deal with a lot. In fact, California Medicaid paid for only 11 in 1998. However, most of the Medicaid pricing representatives noted that the Medicare rate played some role in the determination of their L0430 reimbursement rate.

For example, Georgia and Connecticut use the Medicare allowed charges for all durable medical equipment and reduce that amount by 10 percent.

Massachusetts, Illinois, and Texas also use the Medicare rate in their reimbursement methodology. Massachusetts Medicaid staff said their goal is to not be any higher than the Medicare rate, and in most cases they are a little lower. They also noted that a 11.9 percent rate below Medicare's was probably a little lower than usual. They expressed their plans to increase their rate by 1.4 percent in the near future.

Illinois reimbursement rate is 14.1 percent less than Medicare. However, they said they plan to bring it up to the Medicare level of \$1,136. On a slightly different note from other States, the Illinois representative said their goal is to keep the rates at the Medicare level. They believe this was needed so they will not lose providers and therefore be unable to meet the needs of Medicaid beneficiaries.

Texas had the highest Medicaid allowed charge which was 5.7 percent less than their respective Medicare rate. In addition to the Medicare rate, Texas uses historical trend data and the reimbursement rate for another health program in the State to determine their reimbursement rate.

Florida and California have the lowest reimbursement among the eight States we reviewed. To date both Florida and California have not received any formal complaints from suppliers about their rates.

Florida's unusually low rate of \$399 can in some part be explained by the fact that they established their rates in 1990 based on 80 percent of the Medicare allowed charge. Then in 1995, the Florida legislature mandated a 3 percent across the board rate reduction for all durable medical equipment including orthotics and prosthetics.

A California Medicaid representative noted that their low L0430 reimbursement rate was an anomaly. They explained California's other durable medical equipment Medicaid reimbursement rates are usually in the upper sixty percentile of the Medicare rates.

New York was the only State where the Medicare rate did not have an influence on their reimbursement rate. Pricing representatives noted the \$900 rate was set in 1982 and was very inflated for that time period.

Medicare often pays more for L0430 orthotic body jackets than Tricare

Tricare (formerly CHAMPUS) is the health care program for active duty and retired members of the uniformed services, their families, and survivors. In four of the eight States we reviewed, the Medicare reimbursement rate for L0430 orthotic body jackets exceeded the Tricare rates by an average of 7.4 percent. Only one State we reviewed, New York, paid more than Medicare. Connecticut, Illinois, and Massachusetts did not have any claims

billed in 1998. However, their general practice is to reimburse code L0430 invoices as billed by suppliers.

Table 2
Comparison of Medicare and Tricare Reimbursement Rates for Orthotic Body Jackets

	Medicare Allowed Charge	Tricare Allowed Charge	% Difference from Medicare
TX	\$1,138	\$1,036	-8.9
IL	\$1,136	*	*
CA	\$1,122	\$1,036	-7.7
GA	\$1,042	\$975	-6.4
FL	\$1,042	\$975	-6.4
NY	\$1,036	\$1,347	+30.0
MA	\$981	*	*
CT	\$981	*	*
* = no claims billed in 1998			

The Tricare Policy Manual states that the maximum allowable amount for a customized item of durable medical equipment (which includes orthotics and prosthetics) may be determined by a Tricare contractor using documented evidence of retail prices for customization in the State of purchase. If a contractor cannot derive precise data on the frequency of services from its records, it may use any information it has about the volume of business done by various suppliers in its area in order to develop the maximum allowable charge.

Medicare reimbursement rates greatly exceeded the prices suppliers paid for orthotic body jackets

We compared 24 suppliers' costs to the Medicare allowed charge for 80 orthotic body jacket devices. Our comparison showed that the Medicare allowed charge resulted in a mark-up in cost ranging from 54 percent to 832 percent (See Table 3).

Table 3 shows the wide variation in mark-up. We observed that 3 of the 24 suppliers received a mark-up between 200 and 300 percent. This represented 33 percent of the 80 claims. Of the 24 total suppliers, 8 received a mark-up in excess of 700 percent. The 40 claims submitted by these 8 suppliers represented 50 percent of the 80 claims in our sample.

Table 3
Mark-up for Code L0430 in 1996

% Mark-Up	# of Suppliers	# of Claims	% of Claims
54-100	1	1	1
101-200	7	8	10
201-300	3	26	32.5
301-400	1	1	1.3
401-500	4	4	5
501-600	0	0	0
601-700	0	0	0
701-800	4	17	21.3
800-832	4	23	28.8
Total	24	80	100

The mark-up is the difference between the supplier invoice cost and the Medicare allowed charge. It includes supplier expenses such as overhead and professional services to fit orthotic devices. It also includes supplier profit.

We did not determine what is or is not an appropriate mark-up for orthotic body jackets. Further, HCFA headquarters officials told us they do not know what would be a reasonable and appropriate mark-up. HCFA did observe that an extremely wide variation in what suppliers pay to manufacturers for L0430 orthotic body jackets could indicate differences in quality of the devices. They were not sure that this was the case with our sample, and we did not examine differences in quality. According to a review by the SADMERC, however, all of the devices in our sample met Medicare's standards to qualify as an L0430 orthotic body jacket.

Some of the generous mark-ups may be explained by supplier effectiveness at obtaining discounts from manufacturers for devices sold to Medicare beneficiaries. Another possible explanation could be geographic variations. However, it seems unlikely that such variations would explain mark-up differences ranging from 54 to 832 percent. Therefore, Medicare’s allowed charges for orthotic body jackets sold under code L0430 may be allowing excessive, unreasonable profits for some suppliers.

Table 4 shows potential Medicare costs for the 80 devices in our sample based on various levels of mark-up. The table also shows the difference between those potential Medicare costs and the actual Medicare costs for the 80 devices.

Table 4
Potential Savings to Medicare Based on Various Mark-up Levels

# of Orthotic Body Jackets	Actual Supplier Cost ⁵	If Mark-Up Levels (%) are	Mark-Up Multiplier	Actual Medicare Cost ⁶	Potential Medicare Cost ⁷	Potential Savings/ Additional Cost to Medicare ⁸
80	\$18,869	100	(2)	\$85,592	\$37,738	\$47,854
80	\$18,869	200	(3)	\$85,592	\$56,607	\$28,985
80	\$18,869	300	(4)	\$85,592	\$75,476	\$10,116
80	\$18,869	400	(5)	\$85,592	\$94,345	(\$8,753)
80	\$18,869	500	(6)	\$85,592	\$113,214	(\$27,622)
80	\$18,869	600	(7)	\$85,592	\$132,083	(\$46,491)
80	\$18,869	700	(8)	\$85,592	\$150,952	(\$65,360)
80	\$18,869	800	(9)	\$85,592	\$169,821	(\$84,229)

⁵ \$18,869 is the actual cost that all suppliers in our sample paid for the 80 orthotic claims.

⁶ \$85,592 is the actual total amount that Medicare reimbursed for all 80 orthotic claims in our sample.

⁷ Potential Medicare Cost = (Actual Supplier Cost * Mark-Up Multiplier)

⁸ Potential Savings = (Actual Medicare Cost - Potential Medicare Cost)

RECOMMENDATIONS

The Balanced Budget Act of 1997 gave HCFA greater flexibility in determining appropriate reimbursement rates when rates are found to be grossly excessive, deficient, or not inherently reasonable. That inherent reasonableness authority was limited by a provision of the Balanced Budget Refinement Act of 1999. However, we continue to support the need for more reasonable Medicare prices for orthotic body jackets.

Medicare allowed charge resulted in mark-ups which ranged from 54 percent to 832 percent. Such Medicare rates could allow excessively high profits in some instances. Both State Medicaid agencies and Tricare have shown that suppliers will make L0430 orthotic body jackets available to government beneficiaries at lower prices than what Medicare pays.

Therefore, we recommend that HCFA:

determine the appropriateness of Medicare allowed charges for orthotic body jackets and adjust Medicare reimbursement accordingly.

The potential savings to Medicare and its beneficiaries will vary depending on what HCFA determines to be a reasonable mark-up. For example, the Table below shows the potential savings based on various levels of mark-up for the 45 orthotic claims we reviewed. Appendix A shows our calculations.

Mark-up limit	# of claims	Potential Savings for Sample	Projected Savings to the Medicare Universe
100%	45	\$48,174	\$770,780
300%	45	\$25,201	\$403,220
500%	45	\$14,212	\$227,380

AGENCY COMMENTS

The Administrator, Health Care Financing Administration commented on our draft report.

She noted that the Balanced Budget Refinement Act of 1999 precludes HCFA from using its inherent reasonableness authority to change Medicare allowed charges for orthotic body jackets. Appendix B contains the full text of HCFAs comments.

We modified our recommendation to reflect the limitations in HCFAs authority. We are pleased that HCFA agreed to review the appropriateness of allowed charges for orthotic body jackets once they issue their new final rule on its inherent reasonableness authority.

Potential Savings by Limiting Mark-up for Code L0430 to 300 percent

1	2	3	4	5	6	7	8	9	10	11
			Weighted	Invoice	Weighted			100%	300%	500%
	# of	Medicare Avg	Medicare Avg	Cost of	Invoice Cost			*Potential	Potential	Potential
Supplier #	Claims	Allwd Chg	Allwd Chg	Device	of device	\$ Mark-up	% Mark-Up	Savings	Savings	Savings
54	1	\$1,081	\$1,081	\$700	\$700	\$381	54.4			
1	1	\$1,004	\$1,004	\$490	\$490	\$514	104.9	\$24		
27	2	\$1,004	\$2,008	\$480	\$960	\$524	109.2	\$88		
3	1	\$998	\$998	\$460	\$460	\$538	117.0	\$78		
34	1	\$1,096	\$1,096	\$425	\$425	\$671	157.9	\$246		
45	1	\$900	\$900	\$329	\$329	\$571	173.6	\$242		
43	1	\$945	\$945	\$345	\$345	\$600	173.9	\$255		
20	1	\$998	\$998	\$350	\$350	\$648	185.1	\$298		
26	24	\$1,081	\$25,944	\$350	\$8,400	\$731	208.9	\$9,144		
59	1	\$1,094	\$1,094	\$325	\$325	\$769	236.6	\$444		
4	1	\$1,004	\$1,004	\$255	\$255	\$749	293.7	\$494		
21.1	1	\$1,096	\$1,096	\$238	\$238	\$858	360.5	\$620	\$144	
21	1	\$1,096	\$1,096	\$218	\$218	\$878	402.8	\$660	\$224	
5	1	\$990	\$990	\$176	\$176	\$814	461.4	\$637	\$285	
6	1	\$1,004	\$1,004	\$176	\$176	\$828	469.4	\$651	\$299	
33	1	\$1,094	\$1,094	\$183	\$183	\$911	497.8	\$728	\$362	
31	2	\$1,081	\$2,162	\$129	\$259	\$952	736.4	\$1,645	\$1,128	\$611
24	1	\$1,081	\$1,081	\$129	\$129	\$952	736.4	\$823	\$564	\$306
32	4	\$1,081	\$4,324	\$129	\$517	\$952	736.4	\$3,290	\$2,256	\$1,222
8	10	\$1,081	\$10,810	\$126	\$1,260	\$955	757.9	\$8,290	\$5,770	\$3,250
53	1	\$1,081	\$1,081	\$116	\$116	\$965	829.3	\$848	\$616	\$383
36	14	\$1,081	\$15,134	\$116	\$1,629	\$965	829.3	\$11,877	\$8,620	\$5,362
30	1	\$1,081	\$1,081	\$116	\$116	\$965	829.3	\$848	\$616	\$383
51	7	\$1,081	\$7,567	\$116	\$812	\$965	831.9	\$5,943	\$4,319	\$2,695
	80	\$1,047	\$85,592	\$270	\$18,869		376.3	\$48,174	\$25,201	\$14,212
Weighted #s:			\$1,070		\$236					
Average Allowed Mark-Up:		354%								
Total Savings based on 100% cap=			\$48,174							
Total Savings based on 300% cap=			\$25,201							
Total Savings based on 500% cap=			\$14,212							
*Potential Savings=		(column 4-(column 6 * 100% Mark-up)								
Note: We did not do an analysis to determine the quality between the orthotic body jackets that had an invoice cost of \$116 vs \$700.										

**Potential Medicare Savings for Code L0430
Orthotic Body Jacket with Mark-ups over 100, 300, and 500
percent**

1. 100%: \$48,174 (Total Potential Overpayment for Sample)
 300%: \$25,201 (Total Potential Overpayment for Sample)
 500%: \$14,212 (Total Potential Overpayment for Sample)

2. Multiply the overpayment by .80, since Medicare pays 80% of the allowed charge.

 100%: \$48,174 x .80 = \$38,359 (Loss to the Medicare program)
 300%: \$25,201 x .80 = \$20,161 (Loss to the Medicare program)
 500%: \$14,212 x .80 = \$11,370 (Loss to the Medicare program)

3. Multiply the loss to the Medicare program by 20, since these figures are on a 5 percent sample.

 100%: \$38,359 x 20 = \$770,780
 300%: \$20,161 x 20 = \$403,220
 500%: \$11,369 x 20 = \$227,380

4. Projected savings over 5 years.

 100%: \$770,780 x 5 = \$3,853,900
 300%: \$403,220 x 5 = \$2,016,100
 500%: \$227,380 x 5 = \$1,136,900

Note: Our projection is conservative as it is based on 80 of the 302 claims from a 5 percent sample of the National Claims History file. If we analyzed a larger portion of the 302 claims our overpayment estimates of \$14,212 - \$48,174 would probably be much higher.

Confidence Intervals

Mark-up	Sample Size	Potential Overpayment	+/-	Lower 95% Confidence Interval	Upper 95% Confidence Interval
100%	80	\$770,780	\$74,328	\$696,452	\$845,108
300%	80	\$403,220	\$81,806	\$321,410	\$485,022
500%	80	\$227,380	\$50,595	\$176,785	\$277,975



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration

The Administrator
Washington, D.C. 20201

DATE:

TO: June Gibbs Brown
Inspector GeneralFROM: Nancy-Ann Min DeParle *Michael M. Hoel for*
AdministratorSUBJECT: Office of Inspector General (OIG) Draft Report: Medicare Allowed Charges for
Orthotic Body Jackets, (OEI- 04-97-00391)

Thank you for the opportunity to review the above-referenced report. The objective of this report was to analyze the reasonableness of Medicare allowed charges for orthotic body jackets coded L0430. This is a follow-on report to Medicare Allowed Charges for Orthotic Body Jackets, (OEI-04-97-00390) that was completed in 1999.

As you know, we have worked hard to ensure that Medicare pays appropriately for the covered services provided to the nearly 40 million Americans who rely on Medicare. The annual Chief Financial Officer audit conducted by your office has shown that Medicare's improper payments were cut nearly in half between Fiscal Year 1996 and Fiscal Year 1998, although we know that more work remains to be done. We and our contractors the private insurance companies, that by law process claims, have also taken steps to ensure that Medicare pays reasonable prices for needed services. Using the inherent reasonableness authority obtained in the Balanced Budget Act of 1997, we have put forward proposals to reduce prices on certain items to save Medicare an estimated \$365 million. However, Congress, in the Balanced Budget Refinement Act of 1999 prohibits us from proceeding with inherent reasonableness until we receive and respond to a pending General Accounting Office report on these efforts. We continue to wait for that report.

In addition, we are conducting competitive-bidding demonstrations that use market forces to ensure beneficiaries and Medicare pay more reasonable prices for quality medical equipment and supplies. The first demonstration, implemented in October 1999, is already saving beneficiaries and Medicare an average of 17 percent on five categories of durable medical equipment and supplies, while ensuring broad access to quality supplies throughout Polk County, Florida. We are currently preparing to start a second demonstration that will include some non-customized orthotic equipment, including off-the-shelf body products. However, orthotic body jackets will not be included in this demonstration. As part of its plans to modernize and strengthen Medicare, the Clinton Administration has repeatedly sought broader authority to use this type of competition to ensure Medicare pays more reasonable rates.

Page 2- June Gibbs Brown

Our specific comments are as follows:

OIG Recommendation

HCFA should determine the appropriateness of Medicare allowed charges for orthotic body jackets.

HCFA Response

The Balanced Budget Refinement Act of 1999 prohibits our using inherent reasonableness (IR) authority until the Health Care Financing Administration (HCFA) publishes a new final rule that relates to its IR authority. This final rule must respond to a report that the General Accounting Office is preparing on HCFA's use of IR. At this time, the report is not yet complete. Our new final IR regulation must also respond to the comments we received in response to our interim final regulation IR. Once the new final IR regulation is published, we will review orthotic body jackets to determine if we should consider them for an IR adjustment.