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Inspector General

Medicare Licensing Requirements for Prescription Drug Suppliers, OEI-07-98-00460

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We reviewed the Health Care Financing Administration (HCFA) and National Supplier Clearinghouse (NSC) efforts to ensure that durable medical equipment suppliers have valid pharmacy licenses to bill Medicare for prescription drugs. We are outlining the details of our review for your information and necessary action.

BACKGROUND

Effective December 1, 1996, HCFA required that only entities licensed to dispense prescription drugs may bill Medicare for them. As such, only durable medical equipment (DME) supply companies licensed to dispense prescription drugs may bill for these items when provided in conjunction with DME or prosthetic devices.

The NSC is responsible for issuing Medicare supplier billing numbers and ensuring that suppliers meet prescribed standards for participation. Durable medical equipment regional carriers (DMERCs) process all claims submitted by these suppliers for payment of prescription drugs used with DME, and recovery of any incorrect payments. A third component, the statistical analysis durable medical equipment regional carrier (SADMERC), performs analysis of claims submitted by suppliers and prepares reports.

FINDINGS

The National Supplier Clearinghouse Has Taken Actions to Determine That DME Suppliers Billing for Drugs Have Valid Pharmacy Licenses

The NSC has taken several steps to determine the pharmacy licensure status of DME companies with a Medicare supplier number. It conducted an initial probe sample which found that a problem existed. It then expanded the review to all DME suppliers that bill prescription drugs. Of the total number of DME suppliers, it identified approximately 35,000 which had been approved to bill or had actually billed Medicare for drugs. The NSC chose not to review the approximately 25,000 suppliers in chain organizations because, based on previous studies and reviews, it did not consider them a compliance risk. The

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NSC focused on the remaining 10,020 suppliers which did not have current pharmacy licenses on file.

Over the course of the next 8 months, NSC sent two letters and made telephone calls to suppliers requesting licenses. It also reviewed supplier requests for recertifications which are conducted every 3 years. As of October 1998, it had received 8,195 responses from the outstanding suppliers. It found that these respondents either had or did not have a current license; many licenses were inactive or expired; or the durable medical equipment company was no longer in business. The NSC shared this information with the DMERCs to appropriately update the suppliers' files. This left 1,825 suppliers that had not responded to NSC's requests.

Few Non-Licensed Suppliers Continue to Bill Medicare for Drugs

We provided the list of 1,825 suppliers to the SADMERC to match against Medicare billing and payment records. Its latest data showed that 822 non-respondents had billed drugs to Medicare with allowed charges of over \$13.7 million for 1997. The DMERCs are reviewing this information to take recoupment action on claims that were incorrectly paid if the supplier did not have a current pharmacy license.

As the DMERCs implemented an automated claims processing system, as of July 1, 1998, which was to facilitate identifying providers that did not meet all requirements to bill prescription drugs, we requested that the SADMERC furnish payment data on all non-respondent suppliers which billed Medicare in the last quarter of 1998. Its data showed that 221 of the 1,825 suppliers had billed Medicare and had allowed charges of almost \$1.5 million.

The majority of these suppliers had minimal payments. We, therefore, focused on the 59 which had allowed charges of \$1,000 or more. We made telephone calls to the various State Boards of Pharmacy and found that 50 of these suppliers had current licenses and nine were not licensed. Medicare paid \$150,298 to these 9 suppliers.

CONCLUSION

The HCFA and NSC appear to be taking appropriate action to ensure that suppliers billing for prescription drugs have valid pharmacy licenses. Assuming HCFA continues to pursue recoupment, we do not intend to continue work on this topic. We are issuing this report for informational purposes and to encourage corroborative efforts to recover incorrect payments and identify any remaining suppliers without required licensure. We will provide the DMERCs with the list of suppliers we have identified which continue to bill for prescription drugs but do not have a valid pharmacy license.

I appreciate the assistance provided to my staff in conducting this inspection. If you have any questions or comments about this report, please call me or George Grob, Deputy Inspector General for Evaluation and Inspections, or have your staff contact Mary Beth Clarke at (202) 619-2481.