Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

MEDICAL EQUIPMENT SUPPLIERS

Assuring Legitimacy

JUNE GIBBS BROWN
Inspector General

DECEMBER 1997
OEI-04-96-00240

OFFICE OF INSPECTOR GENERAL

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EXECUTIVE SUMMARY

PURPOSE

To determine whether persons who obtain Medicare durable medical equipment supplier numbers operate bona fide businesses.

BACKGROUND

Before businesses can bill Medicare for sale and rental of durable medical equipment, they must apply for and receive a billing number. Applicants are approved and issued such numbers by the National Supplier Clearinghouse in Columbia, South Carolina. To help assure that applicants are bona fide businesses, the Health Care Financing Administration (HCFA) requires that each supplier meet 11 standards.

Despite such safeguards, however, HCFA reported in 1996 that out of a sample of 36 new DME applicants in the Miami, Florida area, 32 were not bona fide businesses. Among other problems, some bogus applicants did not have a physical address, or an inventory of durable medical equipment. According to HCFA staff, those companies should not be issued a supplier number because they were not operational entities. Further, HCFA staff said such suppliers are typically involved in fraudulent activities.

In light of the bogus applicants discovered in Miami, HCFA asked us to ascertain whether similar problems exist elsewhere in the country. In response, we conducted unannounced on-site inspections of 420 suppliers who were issued billing numbers between January and June 1996. We also inspected 35 applicants who had not yet been approved. Our sampled suppliers were located in 12 large metropolitan areas in New York, Florida, Texas, Illinois, and California.

FINDINGS

- One of every 14 suppliers and 1 of every 9 new applicants did not have a required physical address.

- Forty-one percent of suppliers and 40 percent of new applicants failed to meet at least one supplier standard, such as those related to warranties, information for customers, and inventories.

- Oversight of home-based suppliers is particularly difficult, e.g., typically, they are not at home during normal business hours and have answering machines that do not identify the business.

- The ease and low expense of acquiring a supplier number facilitates entry of abusers into the program.

CONCLUSION

Presently, HCFA and the National Supplier Clearinghouse are approving many inexperienced, unqualified, and unethical people for supplier numbers. The desk verification process for approving suppliers is unreliable for detecting unethical and improper practices of bogus suppliers. On-site verification is needed, but not for all suppliers. HCFA and the National Supplier Clearinghouse may determine that some suppliers such as large corporations need no or only occasional site verification. Further, the supplier number application form needs to be revised. Presently, it is inadequate for judging the suitability of supplier applicants.

RECOMMENDATION

HCFA should take quick action to ensure the integrity of Medicare suppliers of durable medical equipment. The following options would help accomplish that goal.

- Charge all applicants an application fee.
- Require all suppliers to have a surety bond.
- Conduct on-site visits at applicants' physical locations.
- Require program training for new suppliers by the Medicare regional carriers.
- Increase the review of inactive numbers.
- Further revise the application form.
- Seek authority to require Social Security and tax identification numbers from applicants.
- Impose on denied applicants a 6-month waiting period before reapplication.

Implementation of the first option will provide financial resources to implement the others.

AGENCY COMMENTS

HCFA concurred with our recommendation. Their comments are in Appendix A. The Balanced Budget Act of 1997 authorized Medicare to collect Social Security and tax identification numbers and required suppliers to have a surety bond.

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PURPOSE

To determine whether persons who obtain Medicare durable medical equipment supplier numbers operate bona fide businesses.

BACKGROUND

Requirements For DME Supplier Numbers

Before businesses can bill Medicare for sales or rental of durable medical equipment (DME), they must apply for and receive a billing number. In 1993, the Health Care Financing Administration (HCFA) authorized establishment of the National Supplier Clearinghouse (NSC), a contractor that reviews and approves applications. Section 1834 of the Social Security Act requires that applicants and approved DME suppliers meet 11 standards. They are

- fill orders from their own inventory or under a contractual arrangement,
- oversee delivery of equipment,
- answer questions and complaints from beneficiaries,
- maintain and repair rental equipment,
- maintain a physical address at the business site,
- comply with all State and Federal licensure requirements,
- honor warranties on equipment,
- accept the return of substandard equipment,
- disclose consumer information (a list of the standards) to beneficiaries,
- comply with the ownership disclosure provisions of the Social Security Act, and
- have proof of liability insurance.

HCFA has a notice of proposed rulemaking under development which would establish nine new standards that DME suppliers must meet.

The Problem

Despite the existence of supplier standards and NSC reviews, HCFA reported in 1996 that 32 of 36 new DME supplier applicants in the Miami, Florida area were not bona fide businesses. Among other problems, some bogus DME suppliers did not have a physical address, or an inventory of durable medical equipment. For example, in one location, a small subdivided office supposedly housed four suppliers. Though their business licenses were posted in the office, there was no inventory at the site and no business was being conducted. According to HCFA staff, those companies should not be issued a supplier number because they were not operational entities. Further, HCFA said the bogus DME suppliers were likely established to abuse or defraud Medicare. Other reviewers such as the NSC, DME Regional Carrier in South

Carolina, and Florida Medicaid staff corroborated HCFA's findings and conclusions.

Potential Significance Of The Problem

The NSC issued over 300,000 supplier applications, and over 100,000 billing numbers nationwide since 1993.

It is important to determine the extent that such billing numbers were approved for bogus companies that may be intent on defrauding Medicare. Preventing the issuance of billing numbers to such companies could result in a substantial savings to Medicare. Nationwide, Medicare approved DME claims for a total of $4.7 billion in 1995. In the Miami area alone, Medicare paid $406.3 million for DME supplies during a 22-month period ending April 30, 1996.

Some staff with HCFA, NSC, and the DME Regional Carrier suggested that problems like those observed in the Miami area may exist in other urban areas. HCFA asked us to determine whether problems similar to those encountered in the Miami area were occurring elsewhere in the country. We conducted this inspection in response to that request.

METHODOLOGY

We selected 12 metropolitan areas for review of issuance of DME supplier numbers (see chart below). Generally, we selected the largest cities in California, Florida, Illinois, New York, and Texas. We used U.S. census population data to identify the 12 largest cities. We excluded the Miami, Florida area because of ongoing criminal investigations of DME suppliers.

STATES	SELECTED METROPOLITAN AREAS
California	Los Angeles, San Diego, San Francisco
Florida	Jacksonville, Orlando, Tampa
Illinois	Chicago
New York	New York City, Buffalo
Texas	Dallas, Houston, San Antonio

We limited our review of DME supplier numbers to those located in the major metropolitan areas of the cities selected. We used U.S. Postal Service information to identify zip codes that represented the major metropolitan area of each selected city. For example, in Chicago, Illinois, the zip codes were 60000 through 60799. In many instances, the zip codes covered the selected city and several surrounding cities and towns.

For each zip code, we obtained from NSC the applications of all DME suppliers approved during January through June 1996. During that 6-month period, 1,180 suppliers in our selected cities had obtained approved billing numbers. We selected a purposive sample of 420 of the 1,180 suppliers for inspection.

For each zip code, we also obtained, from NSC, all applications for DME supplier numbers that were pending approval when we began making site visits. From the 53 pending applications, we selected a sample of 35 for inspection.

We selected suppliers and applicants without prior knowledge of the legitimacy of their business practices. However, we designed our sample of suppliers to include a variety of supplier types, including physicians, optical stores, therapists, orthotists, and pharmacies.

Thereafter, we made unannounced visits to 420 suppliers and 35 applicants. This was as many as possible given our staff resources and time frame. Generally, we used two-person teams for each visit. In some instances, an OIG investigator accompanied the teams. Each site visit lasted no more than 20 minutes.

Each team used a standardized checklist designed to document when suppliers clearly did not meet 1 or more of the 11 Medicare standards--or worse, did not appear to be a bona fide business. The prime objective of our site visits was to ascertain whether or not suppliers and applicants had an appropriate physical business address. Without such, compliance with other standards was assumed unlikely. For example, without an identifiable physical address, beyond a mailbox location, on-site business and oversight were not possible.

In instances where violations of standards were not obvious, we did no further inspection work to assure that standards were in fact met. Such a determination would have required a long evaluation period for interviews and record reviews.

Operation Restore Trust

This inspection was part of the President's Operation Restore Trust (ORT) initiative. The purpose of ORT is to identify and prevent fraud, waste, and abuse in the Medicare and Medicaid programs. ORT is a joint initiative involving the Health Care Financing Administration, Administration on Aging, Office of Inspector General, and various State agencies. In 1995, ORT began targeting home health agencies, nursing homes, hospices, and durable medical equipment suppliers in five States for evaluations, audits, and investigations. The five States are Florida, New York, Texas, Illinois, and California. These States collectively account for about 40 percent of the nation's Medicare and Medicaid beneficiaries and program expenditures.

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We conducted this inspection in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

ONE OUT OF 14 DURABLE MEDICAL EQUIPMENT SUPPLIERS DID NOT HAVE REQUIRED PHYSICAL ADDRESSES

Medicare standards for DME suppliers require that suppliers have a physical address. Such an address is important to allow beneficiaries a place where they can reach suppliers about DME needs and problems. A physical address also provides a place where beneficiary and financial records should be kept for oversight purposes. Finally, the physical address is usually where suppliers keep their inventory. The application form for DME supplier numbers elicits a supplier's physical, mailing, and billing addresses. These may be three separate addresses. However, failure to accurately list a physical address can result in denial of a billing number to an applicant or revocation of an existing supplier's billing number.

One out of each 14 DME suppliers we inspected (31 of 420) did not have the required physical address--or their presence at the address listed on the application form was highly questionable. This means that 7 percent of the DME suppliers we inspected need further investigation of their legitimacy. Table 1 below shows reasons why the 31 suppliers did not have physical addresses. Likewise, 4 of the 35 new applicants for DME supplier numbers did not have required physical addresses. An additional applicant had an inaccessible address in a secured apartment complex.

TABLE 1

STATUS OF ADDRESS VISITED	SUPPLIERS
Business had closed	14
Had a questionable presence at the address	8
Mail drop location only	4
Address nonexistent or could not be located	5
Total	**31**

As shown by the table, 14 suppliers had closed. That is, they were no longer operating at the sites shown on their applications for DME numbers--though their applications had just been approved during January - June 1996. Most of the 14 had left no information behind such as is typical for a business merely relocating. For example, according to their landlord, a pair of physicians suddenly closed their office and vanished, breaking their lease. In another instance, a neighboring business person said the supplier had closed over a weekend, without leaving any forwarding information.

Table 1 also shows that eight suppliers had no, or a highly questionable presence at the address listed on the DME supplier application form. Residents at or near the listed addresses were unable to say whether or not a supplier had ever been located there. In such instances, we were unable to ascertain that a supplier was ever located at the address given on the application form. We characterized these eight suppliers as having a "questionable presence."

For example, in Brooklyn, New York, a supplier's address shown on the application form was in a building that consisted of four apartments over a laundromat. The DME company name was not shown on mailboxes or other parts of the premises. We interviewed two tenants at the premises who said they had not heard of the supplier. Since the numbers had been issued within the last 6 months, we expected the tenants to recall the supplier if one existed. One of the tenants said the laundromat space was formerly used as a "post office box operation." Further, the phone number shown on the DME application was out of service. Thus, it was impossible to determine whether the DME business had ever operated at the address.

FORTY-ONE PERCENT OF SUPPLIERS FAILED TO MEET AT LEAST ONE DME SUPPLIER STANDARD

Forty-one percent (173) of the 420 DME suppliers we inspected failed to meet at least 1 standard. Likewise, 40 percent (14) of the 35 new applicants for DME supplier numbers we inspected failed to meet at least 1 standard. We believe that these percentages are very conservative, however. We only looked for prima facie and obvious failures to meet standards during our brief site inspections. Our site inspections were designed to expeditiously determine when suppliers or new applicants clearly did not meet standards. If we did not readily observe a violation of the standards during our 20 minute inspection, we did no detail examination to find violations. Logically, a more in-depth inspection would have revealed a greater number of violations.

Further, 20 percent of the 420 existing suppliers were absent from their business addresses at the time of our inspection. Therefore, beyond assessing the existence of a physical address, we could not determine whether or not they met the standards. Typically, those businesses were closed at the time we attempted our site visits. However, had we gotten access to those businesses and owners, we believe we would have identified more instances of noncompliance.

Table 2 lists DME standards in effect at the time of our inspection, and the percentage of existing suppliers we inspected that failed to meet each standard. With one exception, "physical address," the percentages in the table are not based on 420 suppliers. The percentages are based on the number of sites where we could assess a particular standard. For example, at 306 sites, we were able to assess whether or not suppliers met the inventory standard. We were able to check for liability insurance at 240 sites. At some locations, we could not assess any standards beyond the existence

of a physical address. Such locations were where no supplier spokesperson was available for an interview and where we could not gain entrance into the business.

TABLE 2

DME SUPPLIER STANDARD	PERCENTAGE/ NUMBER THAT FAILED	
Consumer information (copy of suppliers standards to beneficiaries)	45%	111 of 248
Allow return of unsuitable items	20%	19 of 95
Warranty repairs	17%	17 of 101
Inventory	9%	27 of 306
Liability insurance	7%	17 of 240
Physical address	7%	31 of 420
Maintenance and repair (rented items)	6%	8 of 132
Questions/complaints	3%	7 of 206
Business license	3%	5 of 200
Delivery of items and equipment	1%	2 of 207
Disclosure of ownership	0%	0 of 269

The Medicare standard failed by the most suppliers was the one requiring them to provide a copy of the supplier standards to each beneficiary receiving DME. Because this is perhaps the easiest standard to meet, the high rate of noncompliance was surprising. Most of the suppliers that failed the standard said they were unaware of the requirement.

OVERSIGHT OF HOME-BASED DME SUPPLIERS IS PARTICULARLY DIFFICULT

Thirteen percent (57) of the 420 DME suppliers we inspected gave their residence as a business address. Of the 35 pending DME applicants, 4 were located in residential locations. This means that about one out of seven existing DME suppliers claim to conduct business out of residences such as a single-family house, mobile home, apartment, or condominium. Similarly, about one out of nine of the new applicants for DME supplier numbers listed such business sites.

Residential DME suppliers create a unique oversight problem for HCFA, NSC, and OIG. First, HCFA's DME application form does not distinguish between home-based suppliers and those at traditional business sites. Second, home-based suppliers often do not post a sign which identifies their business sites. Third, home-based suppliers typically are not at home during normal business hours. Fourth, home-based suppliers sometimes restrict public access to their residences. Finally, home-based suppliers frequently have telephone answering machines that do not identify their business.

Application Form For DME Numbers Does Not Identify Home-Based Suppliers

HCFA's DME number application form does not differentiate between home-based suppliers and those at traditional business sites. Such information is important for determining which types of suppliers are engaging in improper or fraudulent activities, i.e., what are the trends relative to supplier types and fraud. Home-based suppliers are not subjected to the same level of public scrutiny as are traditional storefront or corporate suppliers. Similarly, home-based suppliers are less accessible for program oversight. The need for such oversight becomes more important due to the current trend toward home-based businesses.

At the time we completed our inspection, HCFA was in process of revising the application form. However, we understand that the revised form will still not identify home-based suppliers.

Residences Frequently Not Identified As A Business

The physical location of a DME supplier is typically where inventories and sales models are kept. It is also the place where beneficiaries come to meet suppliers and obtain needed equipment. However, we rarely found a business sign or other identifier information that a business was in operation at addresses given by home-based DME suppliers we inspected.

Without identifiers such as signs, it is also difficult for HCFA and NSC to locate home-based DME suppliers for oversight purposes. Residential zoning or other similar restrictions may account for the absence of a sign, but the fact remains that this traditional way to identify a business site is simply unavailable with many home-based suppliers.

Given the absence of such identifiers, our inspection teams were unable to readily locate some DME suppliers that we had sampled for inspection. Even after finding the address listed on the application form, we were often not sure that we had located the supplier. As a result, we were unable in many instances to ascertain whether or not DME supplier standards were met. More basic than that, site inspections to home-based suppliers typically cannot even confirm the existence of a business nor ascertain the types of items purportedly being provided to beneficiaries.

Business Operators Typically Not At Home During Normal Business Hours

Only 14 of the 57 suppliers purportedly working out of their homes were present at the time of our site inspection, although we conducted our inspections during normal business hours. We ascertained through phone calls with some home-based suppliers that many of them consider their DME business to be a secondary venture. They work on other activities during regular business hours.

This problem hampers access for oversight purposes, and it increases the cost of oversight for HCFA and NSC. To illustrate, monitoring would likely require repeated trips, and the trips would likely have to be done outside of normal work hours. Because home-based suppliers are typically absence from their residences, it is generally useless to conduct on-site monitoring visits during normal business hours. This is particularly true for unannounced visits.

Such difficulty in contacting home-based DME suppliers could affect their ability to serve Medicare beneficiaries.

Access To Residences Is Sometimes Restricted

During our site inspections, some neighborhoods and many apartment buildings were secured by gates, guards, and buzz-in locking systems. While we were able to use our credentials to gain access to locations with security guards, entrance through secured gates and into locked buildings was sometimes not possible.

Persons with less imposing credentials would likely get little or no cooperation from security guards whose job is to keep out persons not properly cleared. Gaining access to restricted residences could be particularly difficult for Medicare beneficiaries who need DME.

We identified some residences where individuals were inside, but they refused to answer the door. In some cases, the individuals peeked through the blinds, disappeared from view, and ignored further attempts to speak with them. Without gaining entrance and locating someone to interview, oversight is impossible. Neither the OIG, HCFA, NSC, nor other oversight officials could, for example, verify inventory or determine that beneficiaries are allowed to return unsuitable items.

Conversely, at traditional business sites, such as stores or office buildings, access was not a problem.

Home-Based Suppliers Are Difficult To Contact By Telephone

In most instances, home-based DME suppliers used personal telephones for their business activities. In such instances, telephone calls during a supplier's absence are often answered by personal answering machines. However, the recorded message

does not always identify the business. In some instances, a caller cannot be sure he or she reached the correct number for the DME supplier.

THE EASE AND LOW EXPENSE OF ACQUIRING A DME SUPPLIER NUMBER FACILITATES ENTRY OF ABUSERS INTO THE PROGRAM

Despite DME supplier standards and an application review process, acquisition of a Medicare DME supplier number is easy. Further, it requires no financial investment. This, combined with the potential high revenue resulting from having a DME billing number, attracts many people--both legitimate and nonlegitimate suppliers.

No Financial Investment Required

Supplying durable medical equipment to Medicare beneficiaries can be a profitable business--whether a supplier takes a legitimate or illegitimate approach. Essentially, a person only needs a supplier number to bill the Medicare program. That number can be obtained by merely answering a few questions on a simple application form, and mailing that form to NSC. No investment in a business location nor inventory is required. A supplier may arrange for shipment from a manufacturer or distributor directly to Medicare beneficiaries. Thus, the supplier does not have to bear the cost of keeping an inventory on-site.

The absence of an investment allows unethical persons to enroll and test their fraudulent schemes at no cost to themselves. During our inspection, we found several individuals who applied for and received supplier numbers on a whim. They did not know how or if they would use the numbers. Some persons said they decided not to bill Medicare after getting the number, and a few asked our inspection team to "take their DME number back and cancel it."

Little Verification Of Application Information

Applicants for DME numbers are required to do little other than assert that the information they provide on an application form is true. The NSC verifies only a limited amount of information provided on DME number applications. They do so by calling the applicant or some third party, such as local licensing agencies and State offices that issue articles of incorporation.

No Experience With Medical Equipment Required

An applicant needs no credentials, and is not required to have any experience with medical equipment to obtain a DME number. Likewise, one does not have to formulate a business plan or purpose showing intent to service Medicare beneficiaries. The absence of such experience and qualifications seems to facilitate entry of abusers into the program. The ease in getting a number unnecessarily opens an opportunity for fraud or abuse. The following examples illustrate the ease of getting a DME billing number, and potential for fraud and abuse.

- A woman who lives in an upscale house on a lake applied for and received a DME number. She purportedly operates a medical supply company at that address. However, her husband openly told us his wife knew nothing about the DME business. He said, on the other hand, he did know about the business because he is a supplier. Nevertheless, the applicant herself was completely inexperienced--clearly raising questions of why she applied for her own number. The situation showed more potential for impropriety than for operation of a bona fide business.

- A Florida souvenir dealer whose shop is in his garage applied for and received a DME number. His main business line includes stuffed alligator heads, alligator skin wallets, and stuffed turtles. But because his brother-in-law installs wheelchair lifts on vehicles, he decided to add wheelchairs, lift chairs, and beds to his line of business. He had no experience or credentials for supplying DME. Further, he keeps no DME inventory. He said he has only filed one Medicare claim.

The suppliers described above were only two of many that raised questions on suitability for DME numbers. For example, we found dealers in fancy spas, golf carts, home modifications, and sports shoes to have DME numbers. We did not establish that suppliers such as the above examples abused the Medicare program. However, they clearly raise questions on appropriateness of receiving DME billing numbers.

CONCLUSION

It is clear that NSC is limited in preventing issuance of improper DME numbers without conducting site verifications of applicants. HCFA staff advised us that the specialization of one national clearinghouse (NSC) is advantageous for screening and issuing DME numbers. We concur. Nevertheless, desk verifications done in Columbia, South Carolina cannot be as thorough and effective as on-site verifications. We understand the resource implications of site verifications. However, the cost should be easily off-set by a reduction of fraudulent suppliers entering the Medicare program.

Further, on-site verification would not be needed for all applicants. Some low-risk applicants may quickly be relegated to desk verification as is currently done. For example, site verification of corporate suppliers such as a major chain of pharmacies in Wal-Mart or Eckerd Drug stores may need limited verification, or none at all. To the extent it is needed, verification would likely be done at the corporate headquarters. Our logic here is based on two generalizations from out site visits: major chains have a centralized operation, and--as a result--staff in a local store know nothing about the DME number, nor Medicare claims.

Our DME on-site inspections indicate that many unqualified, inexperienced people are getting into the DME business. Many DME suppliers we interviewed had little or no idea how the Medicare DME business worked. Given the present application process,

the only reliable way to discover unethical and improper practices by suppliers is to make on-site inspections.

The current DME application form is inadequate to judge the ability of applicants to meet the needs of the Medicare program and its beneficiaries. Although HCFA has revised the form, our site inspections suggest that further revisions are needed. The current application (Form HCFA-855S) could be more effective, from a program integrity perspective. For example, it would be beneficial to have the application identify residential business locations, and when suppliers are available to conduct business. Similarly, requiring applicants to say whether their business is full-time or part-time would be helpful.

RECOMMENDATION

HCFA should take quick action to ensure integrity of Medicare suppliers of DME.

HCFA and the National Supplier Clearinghouse have recognized many of the problems and issues raised in this report. Both, in fact, supported our data collection effort during this inspection. Their positive and constructive steps should help improve operation of the DME program. Further, they have begun to implement some of the options listed below. Each option should be considered independently, on its own merit.

- **Application fee:** Charge all DME applicants an application fee. The fee should cover costs of processing an application and verifying, through on-site inspections, legitimacy of the business.

- **Surety bond:** Require all suppliers to have a surety bond. The bond should be indexed to the volume of Medicare business transacted by a supplier in the previous year. Such a requirement would help indemnify HCFA against fraud and reduce the number of applicants who apply for a supplier number with no clear intent.

  We understand that HCFA's proposed revision of supplier standards would require annual surety bonding for all existing suppliers, and as a condition of enrollment for all supplier applicants.

- **On-site verifications:** Conduct on-site verifications at physical locations of applicants. Several approaches are possible for selecting applicants to be inspected. Primarily, HCFA could inspect the sites of all new applicants, or develop a profile which identifies high risk ones. The OIG would be willing to assist in developing such a profile.

  HCFA is presently using a contractor to conduct site visits in South Florida. We did not assess that methodology during our inspection. However, HCFA reports indicate that it is working well. HCFA is currently in the process of implementing similar site verification visits in the Brooklyn and Bronx areas of New York City. We endorse this action. Such site verification visits would be beneficial if done in other geographic areas as well.

- **Training:** Require DME regional carriers to conduct training for all new suppliers on program requirements, and on proper billing procedures. Suppliers should pay a fee for such training. The amount of the fee should be sufficient to completely pay for the training.

- **Inactive numbers:** Increase review of inactive DME supplier numbers. Currently, HCFA inactivates billing numbers after four consecutive quarters of inactivity. In view of the inactive suppliers whom we found got a billing number on a whim, HCFA should consider initially reviewing a supplier's billing activities after a reasonable period--i.e., 90 days or 6 months. Such a review and deactivation of inactive numbers could help reduce the number of supplier numbers lying fallow. After the initial review, DME numbers found to be active could be reviewed annually.

- **Application form:** Further revise the DME application form. HCFA has been revising the supplier application form over the last year in an attempt to better meet the needs of a changing profile of suppliers. HCFA has consulted with their regional offices, NSC, DME regional carriers, and the supplier industry related to those revisions. The new application (Form HCFA-855S) encompasses some of the options in this report. However, the OIG would be willing to work with HCFA in further revising the application form to reflect program integrity concerns raised from this inspection.

- **Social Security and tax identification numbers:** Seek authority to require Social Security numbers (SSNs) and employer identification numbers from all DME applicants. As part of the overall effort to ensure the integrity of DME suppliers, HCFA should seek legislative authority for the Secretary to require DME number applicants--i.e., all managing employees and owners--to provide their SSNs and employer identification numbers. Access to those unique identifiers will enable HCFA and its contractors to more effectively screen applicants. Those identifiers can also facilitate, when necessary, corrective actions related to billing aberrancies, fraud, or abuse. For example, the SSN could be useful in recovering Medicare funds from a fraudulent DME supplier.

- **6-month delayed reapplication:** Impose a 6-month waiting period on applicants who are denied DME billing numbers for cause. That reapplication waiting period should discourage applicants from failing to provide pertinent information or failing to cooperate with inquiries by NSC. It should also keep applicants from frivolously overburdening the application process by applying repeatedly. Conversely, applicants who apparently pursue their applications in good faith, but are denied because of certain minor problems could be exempt from the waiting period.

The implementation of the first option will provide financial resources to implement the others.

AGENCY COMMENTS

HCFA concurred with our recommendation. Their comments are in Appendix A. The Balanced Budget Act of 1997 authorized Medicare to collect Social Security and tax identification numbers and required suppliers to have a surety bond.

APPENDIX A

HCFA COMMENTS

DEPARTMENT OF HEALTH & HUMAN SERVICES
Health Care Financing Administration
Deputy Administrator
Washington, D.C. 20

DATE: SEP 26 1997

TO: June Gibbs Brown
Inspector General

FROM: Nancy-Ann Min DeParle NMD
Deputy Administrator

SUBJECT: Office of the Inspector General (OIG) Draft Report: "Medical Equipment Suppliers: Assuring Legitimacy," (OEI-04-96-00240)

We reviewed the above-referenced report on whether persons who obtain durable medical equipment (DME) billing numbers are operating bona fide businesses. OIG inspected 420 enrolled suppliers and 35 new applicants for DME billing numbers located in Operation Restore Trust states. The report found that many suppliers were not operating bona fide businesses. About 1 of every 14 DME suppliers and 1 of every 9 new applicants either did not have a physical address, or the presence of a business was highly questionable. Forty-one percent of the suppliers and 40 percent of new applicants failed to meet at least one Medicare standard such as those relating to warranties and information for beneficiaries. Oversight of suppliers who work out of their homes is particularly difficult. Such suppliers are typically away during business hours and access to their residences is often restricted.

To help ensure ethical DME suppliers, OIG recommends several options for the Health Care Financing Administration (HCFA) to consider. We concur with all of the report recommendations. Our detailed comments are as follows:

OIG Recommendation

HCFA should take quick action to ensure integrity of Medicare suppliers of durable medical equipment (DME). Consider each option below independently.

OIG Option 1

Charge all applicants an application fee.

HCFA Comment

We concur. We requested legislative authority under the Administration's "Medicare and Medicaid Fraud, Waste and Abuse Prevention Amendments of 1997" (section 122) to allow HCFA to charge suppliers an application fee that would cover all activities of the National Supplier Clearinghouse (NSC) to include on-site visits in validating initial applications. We are projecting that the fee for initial applications would be somewhere around $100. These fees should be sufficient to cover the costs related to initiating and reviewing enrollments, including the costs of establishing and maintaining procedures and records systems, processing applications, and conducting background investigations.

OIG Option 2

Require all suppliers to have a surety bond.

HCFA Comment

We concur. Section 4312 of the Balanced Budget Act of 1997, enacted August 5, 1997, adds a new paragraph 16 to section 1834(a) of the Social Security Act which provides that a supplier of durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) must have a surety bond of not less than $50,000. The effective date of this provision is for DME services furnished on or after January 1, 1998.

We have also taken other steps that will enable the NSC to determine whether a supplier is operating out of a legitimate address. The durable medical equipment regional carriers (DMERCs) are sending out all supplier checks in "Do Not Forward" envelopes and forwarding information to the NSC when they are returned. The NSC is, in turn, investigating these suppliers. In addition, the NSC has started using the Postal Service's National Change of Address mechanism to ascertain whether suppliers are changing their locations without notifying the NSC.

OIG Option 3

Conduct on-site visits at applicants' physical locations.

HCFA Comment

HCFA concurs with the intent of assuring the legitimacy of DME suppliers by conducting site visits at the applicants' physical locations. However, limited resources allow on-site visits to be conducted only in high risk areas, such as Operation Restore Trust (ORT) states. The NSC was recently authorized $100,000 to perform site visits in California, Texas, Illinois, and New York. The NSC is currently negotiating a subcontract with

Equifax for conducting on-site visits in these areas. Site visits in South Florida are currently being conducted by the NSC. However, the additional funding provided by ORT will allow an expansion of these efforts. Additionally, should we get the legislative authority to charge application fees, we can place more emphasis on ensuring that suppliers meet the specified requirements in the supplier standards.

OIG Option 4

Require program training for new suppliers by the Medicare regional carriers.

HCFA Comment

HCFA concurs with the intent of this recommendation. However, because of limited staffing and financial resources, HCFA is unable to require training for all new suppliers at this time. The DMERCs periodically hold training sessions which include training for new suppliers. Each DMERC has its own supplier manual for the use of the suppliers in its area. These supplier manuals are updated periodically. The DMERCs also publish quarterly bulletins with news, new billing requirements, policies, and reminders. We will explore ways to intensify these efforts.

OIG Option 5

Increase the review of inactive numbers.

HCFA Comment

We concur. We have instituted procedures at the NSC whereby it will deactivate supplier numbers on a quarterly basis for suppliers who have not billed for 4 quarters. The NSC will deactivate supplier numbers every 3 months for non-billing instead of every year.

OIG Option 6

Further revise the application form.

HCFA Comment

We concur. The form has been revised to collect information on whether a supplier applicant is operating from a residence. In fact, we have developed a new enrollment process that requires carriers to verify all data provided on the application, e.g., licensure information, prior sanction or exclusion information, place of business, ownership information, billing contracts, tax identification data, etc. This information is verified with the state licensing board, OIG, and professional associations. We would welcome the OIG's input on future revisions.

OIG Option 7

Seek authority to require Social Security and tax identification numbers from applicants.

HCFA Comment

We concur. We requested legislative authority under the Administration's "Medicare and Medicaid Fraud, Waste and Abuse Prevention Amendments of 1997" (section 121) to mandate that individuals provide social security numbers on the DME application form (HCFA-855S), including owners and managing employees. This provision was included in section 4313 of the Balanced Budget Act of 1997.

OIG Option 8

Impose on denied applicants a 6-month waiting period before reapplication.

HCFA Comment

We concur. We requested this legislative authority under the Administration's "Medicare and Medicaid Fraud, Waste and Abuse Prevention Amendments of 1997" (Section 122).

TOTAL P.05