

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICARE PART B ALLOWANCES FOR
WOUND CARE SUPPLIES**



**JUNE GIBBS BROWN
Inspector General**

**JUNE 1998
OEI-03-94-00793**

OFFICE OF INSPECTOR GENERAL

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EXECUTIVE SUMMARY

PURPOSE

This report identifies trends in Medicare Part B allowances for wound care supplies in 1996.

BACKGROUND

Wound care supplies are protective covers or fillers for openings on the body caused by surgical procedures, wounds, ulcers, or burns. These supplies are covered under Medicare Part B when they are medically necessary for the treatment of surgical or debrided wounds. Wound care supply claims are processed by the four Durable Medical Equipment Regional Carriers (DMERCs).

Changes in Medicare Part B Coverage Policy for Wound Care Supplies

As of March 30, 1994, Medicare expanded its coverage of wound care supplies to include both primary and secondary dressings. Primary dressings are coverings applied directly to wounds or lesions on the skin or wounds caused by an opening to the skin. Secondary dressings include adhesive tape, roll gauze, and bandages. The 1994 policy also removed time limits on the coverage of wound care supplies and provided coverage regardless of type of debridement or what type of health care professional performed the procedure.

On October 1, 1995, the four DMERCs implemented new policies concerning their coverage of these products. Included in these policies are utilization parameters for wound care supplies. In addition, modifiers to the codes were added to identify the number of wound sites treated with wound care supplies.

More recently, the Balanced Budget Act of 1997 included a provision which bundles payment for Part B services and supplies provided to beneficiaries covered under a Part A stay in a skilled nursing facility (SNF) into a per diem payment. Therefore, suppliers can no longer bill separately for wound care supplies provided to beneficiaries in SNFs whose stays are covered under Part A. Further, the Act requires services provided to beneficiaries in nursing facilities not covered under a Part A stay to be billed directly by the nursing home rather than the supplier. These provisions are to take effect July 1, 1998.

FINDINGS

Medicare Part B allowances for wound care supplies have decreased by nearly 50 percent.

Allowances for wound care supplies decreased by nearly 50 percent from \$143 million in 1995 to \$74 million in 1996.

The DMERCs have several measures in place to identify and prevent allowances for claims that exceed their guidelines for wound care supplies.

The DMERCs have utilized new policies, edit screens, supplier review and education, and post-payment audits to identify and prevent allowances for excessive claims for wound care supplies.

Medicare Part B allowances for wound care supplies exceeding DMERC guidelines in 1996 also decreased significantly.

Allowances for wound care supplies exceeding DMERC parameters dropped from \$65 million in 1995 to \$7 million in 1996, a decrease of nearly 90 percent.

CONCLUSION

The allowances for wound care supplies have decreased dramatically. The Health Care Financing Administration (HCFA) and the DMERCs have taken steps to identify and prevent inappropriate payments. Concerted efforts by HCFA, DMERCs, and the Office of Inspector General (OIG) in the form of policy changes, utilization review, and reports have contributed to the declines in Medicare allowances documented in this report. The new policy provided utilization parameters for many products. The reports made DMERCs and others concerned with claims processing aware of questionable billing practices. As a result, \$58 million in excessive allowances was saved between 1995 and 1996. If these allowances continue to be held in check, 5 year savings of nearly \$300 million could be achieved.

Some claims still exceeded DMERC guidelines in 1996. These claims may have been justified through additional documentation from the supplier which we did not examine. In addition, once implemented, the changes enacted in the Balanced Budget Act of 1997 may further reduce allowances for wound care supplies that exceed DMERC guidelines. Part of the Act changes the method for reimbursing SNFs. Instead of paying for Part B services and supplies separately, these costs will be bundled into a per diem payment at each facility for as long as the beneficiary's stay is covered under Part A. Since a large portion of allowances (56 percent) for claims exceeding DMERC guidelines were made for beneficiaries in SNFs, this change in reimbursement methodology could have a significant impact on future billing for wound care supplies. However, to ensure that appropriate per diem rates are established, excessive allowances identified in 1995 must be taken into account. Another change that could affect future billing is that claims for medical services and supplies, including wound care supplies, will be billed by the nursing facilities themselves rather than individual suppliers.

AGENCY COMMENTS

The HCFA reviewed the draft report and concurred with both our conclusion and the savings identified. The full text of their comments is in Appendix B.

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INTRODUCTION

PURPOSE

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Changes in Medicare Part B Coverage Policy for Wound Care Supplies

As of March 30, 1994, Medicare expanded its coverage of wound care supplies to include both primary and secondary dressings. Primary dressings are coverings applied directly to wounds or lesions on the skin or wounds caused by an opening to the skin. Secondary dressings include adhesive tape, roll gauze, and bandages. The 1994 policy also removed time limits on the coverage of wound care supplies. In addition, the policy provided coverage regardless of type of debridement or what type of health care professional performed the procedure. Previously, wound care supplies would only be covered if the procedure was a sharp debridement (e.g., scalpel, laser) and was performed by a physician. Finally, the policy removed the requirement for suppliers to submit a certificate of medical necessity.

On October 1, 1995, the four DMERCs implemented new policies concerning their coverage of these products. Included in these policies are utilization parameters for wound care supplies. For example, certain types of supplies should not be billed in excess of one per day. The guidelines state that these parameters may be exceeded if the supplier includes documentation to substantiate the claim. The new policy also included modifiers to the codes to identify the number of wound sites treated with wound care products.

More recently, the Balanced Budget Act of 1997 included a provision which bundles payment for Part B services and supplies provided to beneficiaries covered under a Part A stay in a skilled nursing facility (SNF) into a per diem payment. Therefore, suppliers can no longer bill separately for wound care supplies provided to beneficiaries in SNFs whose stays are covered under Part A. Further, the Act requires services provided to beneficiaries in nursing facilities not covered under a Part A stay to be billed directly by the nursing home rather than the supplier. These provisions are to take effect July 1, 1998.

Other Office of Inspector General Work

The 1995 report *Questionable Medicare Payments for Wound Care Supplies (OEI-03-94-00790)* found that \$65 million of the \$98 million allowed for wound care supplies between June 1994 and February 1995 was for questionable claims. This was one of a series of reports issued in 1995 concerning Medicare payments for wound care and provided baseline information on questionable billings which our current inspection will employ for comparison purposes. *Marketing of Wound Care Supplies (OEI-03-94-00791)* described supplier and nursing home practices that can lead to questionable allowances and examined issues concerning Medicare beneficiaries' use of wound care supplies. *Wound Care Supplies: Operation Restore Trust Data (OEI-03-94-00792)* examined questionable billing practices and supplier and nursing home practices that can lead to questionable billing in the five States targeted by the anti-fraud initiative known as Operation Restore Trust.

METHODOLOGY

To learn what steps have been taken to identify and prevent allowances for claims that exceed DMERC guidelines for wound care supplies, we asked each DMERC to provide us with information on their policies and procedures concerning wound care supplies. We asked the DMERCs to describe both pre- and post-payment procedures to identify excessive claims as well as to evaluate the success of those procedures.

To determine both the total amount allowed for wound care supplies and the number of claims exceeding the DMERC guidelines, we obtained a 1 percent sample of Part B claims for wound care supplies in 1996. While our calculations of claims exceeding DMERC guidelines were based on the 89 percent complete 1996 1 percent file, estimates of the total allowances were based on the complete 1996 file.

Based on 1 percent samples of Part B claims from 1995 and 1996, we compared the total allowed for wound care claims in each year. We applied DMERC guidelines implemented in October 1995 to the 1996 claims to identify excessive allowances. Specifically, we looked for claims that exceeded DMERC utilization parameters. We compared the 1996 data with the data presented in our previous report which covered June 1994 through February 1995. Unlike our previous report, we were able to use new modifiers to determine the number of wounds being treated in calculating the extent of claims exceeding the DMERCs' utilization parameters. However, we did not examine individual claims to determine if additional documentation was provided by the supplier. As with our previous report we did not address claims for wound care supplies that should not be billed together.

Our analysis of tape overutilization varied considerably from that of our previous work. In our earlier inspection, we determined the extent of tape overutilization based on a sample of beneficiaries with allowances for tape. We then determined the number of inches of tape that should have been allowed for each bandage and whether the claim exceeded that amount.

For this report, we used the DMERC guidelines on the number of units of tape that could be billed with certain bandages. Based on the number of units allowed for each bandage and the allowed amount for each unit of tape, we determined which claims had allowances for tape which exceed the DMERC parameters.

This study was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

MEDICARE PART B ALLOWANCES FOR WOUND CARE SUPPLIES HAVE DECREASED BY NEARLY 50 PERCENT.

In 1994, \$98 million was allowed for wound care supplies. Allowances rose to \$143 million in 1995. However, expenditures for wound care supplies have dropped significantly to \$74 million in 1996, a decrease of nearly 50 percent from 1995. The number of beneficiaries receiving wound care supplies has also decreased from 269,700 in 1995 to 255,100 in 1996. Average allowances per beneficiary have dropped from \$769 in 1994 to \$531 in 1995, and to \$290 in 1996; a drop of 45 percent in 1 year. Table A below shows the extent to which Medicare reimbursement has changed by type of wound care product.

Table A. Changes in Allowances from 1995 to 1996

WOUND CARE PRODUCT	TOTAL ALLOWANCES FOR WOUND CARE CLAIMS (In Millions)		
	1995	1996	PERCENTAGE CHANGE*
Hydrogel Dressings	\$49.2	\$21.7	-56%
Tape	\$10.5	\$1.9	-82%
Gauze	\$20.4	\$11.1	-46%
Foam Dressings	\$29.5	\$7.9	-73%
Specialty Absorptive Dressings	\$6.7	\$7.8	+16%
Alginate Dressings	\$9.8	\$9.9	+1%
Other Supplies	\$2.1	\$1.8	-13%
Transparent Film	\$5.2	\$2.6	-49%
Hydrocolloid Dressings	\$5.6	\$7.5	+35%
Composite Dressings	\$3.8	\$1.6	-57%
Contact Layer	\$2	\$0.0	-100%
Total	\$143.0	\$73.8	-48%

* Percentages may be slightly off due to rounding.

Nearly half of the total allowances were made by DMERC C, the DMERC which processes the most claims. The DMERC C allowed \$36 million of the \$74 million in total allowances in 1996. DMERCs A and B had the next highest allowances for wound care supplies, with \$14.5 million each. The DMERC D had the lowest allowances with \$9 million.

The data for 1997 indicates that allowances for wound care supplies are remaining at or below 1996 levels. Current data reveals 1997 allowances of \$61 million.

MEASURES ARE IN PLACE AT THE DMERCs TO IDENTIFY AND PREVENT CLAIMS EXCEEDING THEIR GUIDELINES FOR WOUND CARE SUPPLIES.

Edit Screens

All four DMERCs use edit screens to identify claims exceeding their guidelines for at least some of the wound care supply codes. These screens capture services that exceed the DMERC parameters for review. One DMERC has edit screens in place for all wound care codes. The remaining DMERCs have edit screens in place for certain supplies which they have determined to be vulnerable to abuse. These three DMERCs target five types of wound care supplies: foam dressings, hydrogel dressings, alginate dressings, hydrocolloid dressings, and gauze. One DMERC also has a screen to capture excessive claims for one type of wound filler.

Flagged Suppliers

Each of the DMERCs also has a system to suspend all of the claims from certain providers for detailed medical review. According to the DMERCs, some suppliers' claims were flagged only for certain supplies. In other cases, all of a supplier's claims were subject to review.

Supplier Education

The DMERCs have a variety of approaches for educating suppliers about their wound care policies. The DMERCs reported distributing newsletters and bulletins to make suppliers aware of their policies and guidelines for submitting wound care claims. In addition, DMERCs conduct supplier seminars. Several DMERCs mentioned providing education for specific providers, particularly if the supplier has submitted questionable claims in the past.

Post-payment Audits

Several DMERCs reported conducting post-payment audits to verify that items were supplied and were medically necessary. If the audit uncovers questionable claims, the case is turned over to the DMERC fraud unit. If the DMERCs identify a significant overpayment to a particular supplier, the supplier may be required to submit to a post-payment Comprehensive Medical Review.

MEDICARE PART B ALLOWANCES FOR WOUND CARE SUPPLIES EXCEEDING DMERC GUIDELINES IN 1996 ALSO DECREASED SIGNIFICANTLY.

Allowances for wound care supplies exceeding DMERC parameters dropped from \$65 million in 1995 to \$7 million¹ in 1996, a decrease of nearly 90 percent. It should be noted that DMERC guidelines can be exceeded if documentation justifying the claim is provided. However, we did not review individual claims for such documentation.

Table B below shows the decrease in excessive allowances for wound care supplies. More than half of the \$7 million allowed for claims exceeding DMERC guidelines in 1996 were for three types of wound care supplies. Hydrogel dressings, foam dressings, and specialty absorptive dressings made up 58 percent of all allowances for items exceeding the DMERC guidelines. Of the \$7 million in claims exceeding DMERC guidelines, nearly \$4 million was for these three types of wound care supplies.

Table B. Allowances for Claims Exceeding DMERC Guidelines by Type of Supply

WOUND CARE PRODUCT	ALLOWANCES FOR CLAIMS EXCEEDING DMERC GUIDELINES (In Millions)		
	JUNE 1994-FEBRUARY 1995	1996*	PERCENTAGE LESS
Hydrogel Dressings	\$24.8	\$1.8	-92%
Tape†	\$9.8	\$0.1	-99%
Gauze	\$7.8	\$0.6	-92%
Foam Dressings	\$7.4	\$1.4	-81%
Specialty Absorptive Dressings	\$4.0	\$0.8	-80%
Alginate Dressings	\$2.9	\$0.1	-97%
Other Supplies	\$2.8	\$0.5	-82%
Transparent Film	\$2.3	\$0.7	-70%
Hydrocolloid Dressings	\$2.0	\$0.5	-75%
Composite Dressings	\$0.7	\$0.3	-57%
Contact Layer	\$0.0	\$0.0	N/A
Total	\$64.5	\$6.8	-89%

* 1996 data was based on the 89 percent complete 1 percent file.

† 1995 and 1996 allowances were calculated using different methods.

¹ Estimates of allowances for claims exceeding DMERC guidelines were based on the 89 percent complete 1 percent file.

Nearly 50 percent of all allowances for claims exceeding the DMERC guidelines were found in five States. These States were Florida, Texas, Illinois, California, and Michigan. Sixteen percent of the allowances (\$1.1 million) were for claims for beneficiaries in Florida. Three of the States with the most allowances for items exceeding the DMERC guidelines in 1996 were also part of the group of eight states that made up nearly two-thirds of the questionable billings found in our previous inspection.

Most allowances for claims exceeding the DMERC guidelines for wound care supplies were for beneficiaries in SNFs or nursing facilities. Nearly 80 percent of excessive allowances were made for beneficiaries residing in SNFs or nursing facilities. Fifty-six percent of the allowances for claims exceeding DMERC guidelines were for beneficiaries in SNFs. Our previous inspection found that 72 percent of such allowances were made for beneficiaries in SNFs or nursing facilities.

CONCLUSION

The allowances for wound care supplies have decreased dramatically. The Health Care Financing Administration (HCFA) and the DMERCs have taken steps to identify and prevent inappropriate payments. Although it appears that some allowances for wound care supplies exceed the DMERC guidelines, concerted efforts by HCFA, DMERCs, and the Office of Inspector General in the form of policy changes, utilization review, and reports have contributed to the declines in Medicare allowances documented in this report. The new policy provided utilization parameters for many products. The reports made DMERCs and others concerned with claims processing aware of questionable billing practices. As a result, \$58 million in excessive allowances was saved between 1995 and 1996. If these allowances continue to be held in check, 5 year savings of nearly \$300 million could be achieved.

Once implemented, the changes enacted in the Balanced Budget Act of 1997 may further reduce allowances for wound care supplies that exceed DMERC guidelines. Part of the Act changes the method for reimbursing SNFs. Instead of paying for Part B services and supplies separately, these costs will be bundled into a per diem payment at each facility for as long as the beneficiary's stay is covered under Part A. Since a large portion of allowances (56 percent) for claims exceeding DMERC guidelines were made for beneficiaries in SNFs, this change in reimbursement methodology could have a significant impact on future billing for wound care supplies. However, to ensure that appropriate per diem rates are established excessive allowances identified in 1995 must be taken into account. Another change that could affect future billing is that claims for medical services and supplies, including wound care supplies, will be billed by the nursing facilities themselves rather than individual suppliers.

AGENCY COMMENTS

The HCFA reviewed the draft report and concurred with both our conclusion and the savings identified. The full text of their comments is in Appendix B.

APPENDIX A

CONFIDENCE INTERVALS

We reported our projected totals by multiplying by 100 the point estimates in our samples. The point estimates represent total allowances. The tables below include columns containing the confidence intervals for each of the projected totals. All projections were made at the 95 percent confidence level.

Table 1.

TOTAL 1995 AND 1996 ALLOWANCES			
1995		1996	
Projected Total	Confidence Interval	Projected Total	Confidence Interval
\$143,248,682	+/- \$5,390,705	\$74,049,462	+/- \$2,634,834

Table 2.

TOTAL 1995 AND 1996 ALLOWANCES BY WOUND CARE PRODUCT				
WOUND CARE PRODUCT	1995		1996	
	Projected Total	Confidence Interval	Projected Total	Confidence Interval
Hydrogel Dressings	\$49,242,112	+/- \$3,572,860	\$2,170,523	+/- \$170,383
Tape	\$10,535,485	+/- \$1,093,028	\$1,901,097	+/- 82,254
Gauze	\$20,426,209	+/- \$1,441,689	\$11,092,697	+/- \$491,276
Foam Dressings	\$29,533,555	+/- \$2,181,375	\$7,896,923	+/- \$581,986
Specialty Absorptive Dressings	\$6,703,832	+/- \$727,473	\$7,787,353	+/- \$614,315
Alginate Dressings	\$9,842,702	+/- \$960,525	\$9,933,531	+/- \$779,554
Other Supplies	\$2,129,436	+/- \$567,479	\$1,914,376	+/- \$406,623
Transparent Film	\$5,207,868	+/- \$646,886	\$2,640,366	+/- \$319,282
Hydrocolloid Dressings	\$5,577,082	+/- \$502,599	\$7,546,972	+/- \$495,053
Composite Dressings	\$3,781,102	+/- \$480,522	\$1,623,933	+/- \$155,093
Contact Layer	\$269,293	+/- \$169,551	Cannot Project	

Table 3.

TOTAL 1996 ALLOWANCES BY DMERC		
DMERC	1996	
	Projected Total	Confidence Interval
DMERC A	\$14,514,813	+/- \$1,237,777
DMERC B	\$14,581,662	+/- \$1,019,319
DMERC C	\$36,181,879	+/- \$1,919,587
DMERC D	\$8,771,112	+/- \$750,292

Table 4.

EXCESSIVE ALLOWANCES			
JUNE 1994-FEBRUARY 1995		1996	
Projected Total	Confidence Interval	Projected Total	Confidence Interval
\$63,693,411	+/- \$1,494,300	\$6,872,709	+/- \$1,524,011

Table 5.

EXCESSIVE ALLOWANCES BY WOUND CARE PRODUCT				
WOUND CARE PRODUCT	JUNE 1994 - FEBRUARY 1995		1996	
	Projected Total	Confidence Interval	Projected Total	Confidence Interval
Hydrogel Dressings	\$24,778,466	+/- \$7,620,692	\$1,775,352	+/- \$775,992
Tape	\$9,792,200	+/- \$1,494,300	\$112,170	+/- 39,182
Gauze	\$7,772,278	+/- \$181,760	\$621,488	+/- \$273,344
Foam Dressings	\$7,381,708	+/- \$3,400,481	\$1,400,461	+/- \$505,898
Specialty Absorptive Dressings	\$3,963,916	+/- \$1,432,297	\$785,261	+/- \$301,044
Alginate Dressings	\$2,913,323	+/- \$1,645,784	\$151,861	+/- \$116,464
Other Supplies	\$2,792,247	+/- \$1,110,985	\$496,380	+/- \$416,027
Transparent Film	\$2,297,968	+/- \$909,948	\$687,264	+/- \$404,178
Hydrocolloid Dressings	\$1,963,598	+/- \$769,118	\$508,227	+/- \$242,146
Composite Dressings	\$737,861	+/- \$312,425	\$334,246	+/- \$159,704
Contact Layer	Cannot Project			

APPENDIX B

AGENCY COMMENTS



The Administrator
Washington, D.C. 20201

DATE: APR 29 1998

TO: June Gibbs Brown
Inspector General

FROM: Nancy-AnnMin DeParle *Nancy-A DeParle*
Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "Medicare Part B Allowances for Wound Care Supplies," (OEI-03-94-00793)

We reviewed the above-referenced report which reflects a concerted effort on the part of the Health Care Financing Administration, Durable Medical Equipment Regional Carriers, and the Office of Inspector General. We are in agreement with the report findings and savings identified as a result of these activities.

Thank you for the opportunity to review and comment on this report.