DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date FEB 28 1997

From for June Gibbs Brown
Inspector General
Michael Mangano

Subject Review of Durable Medical Equipment Regional Carrier Overpayments (A-04-96-01144)

To Bruce C. Vladeck
Administrator
Health Care Financing Administration

This memorandum alerts you to the issuance on March 4, 1997, of our final audit report to the Palmetto Government Benefits Administrators (Palmetto GBA) concerning durable medical equipment regional carrier (DMERC) overpayments as of June 30, 1996. This audit is a part of the Operation Restore Trust initiative. A copy is attached.

The objectives of our review were to determine whether Palmetto GBA was identifying and collecting overpayments from Medicare providers in a timely manner and to determine whether the DMERC was writing off overpayments.

Our review at Palmetto GBA has identified problems with the overpayment collection process. As of June 30, 1996, the DMERC has identified and recorded $112.6 million in overpayments and interest which have not been collected from the Medicare durable medical equipment (DME) providers. Our review of 90 overpayments showed that established collection procedures were not followed in a timely manner resulting in an excessive dollar amount of outstanding overpayments.

The Health Care Financing Administration (HCFA) requires uncollected overpayments outstanding over 180 days to be transferred to HCFA for collection. Therefore, none of the Medicare DME overpayments should be written off by the DMERC. During our audit, we did not find any instances where the DMERC had written off overpayments to providers.

We are recommending that the DMERC follow the collection procedures required by HCFA and use more aggressive collection efforts especially during the first few months after the overpayment is identified. If the DMERC follows HCFA's and their own established collection procedures, the $112.6 million in outstanding overpayments and interest could be significantly reduced or eliminated.

In a memorandum dated November 8, 1996, we advised HCFA of our findings. In a memorandum dated December 16, 1996, HCFA responded that subsequent to our review,

they had been actively involved in overseeing the recoupment of the DMERC overpayments. The HCFA reported that individual overpayments in excess of $5,000 (that had totaled $97,470,926) had been reduced to $45.7 million through collection or referral to HCFA for appropriate action. In addition, HCFA stated that the Atlanta Regional Office will follow-up on a monthly basis with the DMERC to assure that appropriate action has been taken on all overpayments.

Attachment

For further information, contact:

Charles J. Curtis
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Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

OPERATION RESTORE TRUST

REVIEW OF DURABLE MEDICAL EQUIPMENT REGIONAL CARRIER OVERPAYMENTS

JUNE GIBBS BROWN
Inspector General

MARCH 1997
A-04-96-01144

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
P.O. BOX 2047
ATLANTA, GEORGIA 30301

CIN: A-04-96-01144

Mr. William Horton
Group Vice President
Federal Programs
Blue Cross and Blue Shield of South Carolina
I-20 at Alpine Road
Columbia, South Carolina 29219

Dear Mr. Horton:

This report provides you with the results of our review of durable medical equipment regional carrier (DMERC) overpayments. The objectives of our review were to determine whether Palmetto Government Benefits Administrators (GBA) were identifying and collecting overpayments from Medicare providers in a timely manner and to determine whether the DMERC was writing off overpayments.

Our review at Palmetto GBA has identified problems with the overpayment collection process. As of June 30, 1996, the DMERC has identified and recorded $112.6 million in overpayments and interest which have not been collected from the Medicare durable medical equipment (DME) providers. Our review of 90 overpayments showed that established collection procedures were not followed in a timely manner resulting in an excessive dollar amount of outstanding overpayments.

In a memorandum dated November 8, 1996, we advised the Health Care Financing Administration (HCFA) of our findings. In a memorandum dated December 16, 1996, HCFA responded that subsequent to our review, they had been actively involved in overseeing the recoupment of the DMERC overpayments. The HCFA reported that individual overpayments in excess of $5,000 (that had totaled $97,470,926) had been reduced to $45.7 million through collection or referral to HCFA for appropriate action. In addition, HCFA stated that the Atlanta Regional Office will follow-up on a monthly basis with the DMERC to assure that appropriate action has been taken on all overpayments. The full text of HCFA's response is contained in Appendix C.

The HCFA requires uncollected overpayments outstanding over 180 days to be transferred to HCFA for collection. Therefore, none of the Medicare DME overpayments should be written off by the DMERC. During our audit, we did not find any instances where the DMERC had written off overpayments to providers.

We recommend that the DMERC take immediate corrective actions to comply with collection procedures in order to reduce or eliminate the $112.6 million in overpayments and interest in a timely manner.

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INTRODUCTION

BACKGROUND

Four regional Medicare contractors were selected by HCFA in December 1992 to process suppliers' claims for DME as part of an effort by the agency to systematically curb fraud and abuse, assure appropriate Medicare payments, and promote efficiency connected with the purchase and rental of DME by Medicare beneficiaries. The regional carriers were selected from the 33 Medicare carriers that formerly processed DME claims and also handled claims from physicians and outpatient facilities.

The Palmetto GBA, located in Columbia, South Carolina, is the Medicare Region "C" DMERC. They handle the DME, prosthetics, orthotics and supplies claims for 14 States, as well as Puerto Rico and the Virgin Islands. Claims jurisdiction is determined by the State in which the beneficiary permanently resides.

The HCFA awarded Palmetto GBA the Medicare Region "C" DMERC contract effective October 1, 1993. At that time, Palmetto GBA began processing new Medicare DME claims and overpayments for the region. In addition, Medicare carriers within Region "C" that formerly processed DME claims, began transferring outstanding overpayment files to Palmetto GBA.

The Medicare Carriers Manual, as well as the DMERC's Policies and Procedures Manual, requires the following collection procedures to be used to recover overpayments.

- An initial overpayment letter should be sent to the provider when the overpayment is identified.
- A second request letter should be sent to the provider 30 to 45 days after the initial request date.
- The provider should be placed on offset status 40 days after the initial request date.
- If the DMERC has been unable to collect the overpayment from the provider within 180 days from the initial request date, the overpayment should be transferred to HCFA for collection.

In addition, the DMERC's Policies and Procedures Manual requires a final demand letter be sent to the provider 90 days after the date of the initial overpayment letter.

Once implemented, the Debt Collection Improvement Act of 1996 will require non-tax debts owed to the United States over 180 days delinquent to be turned over to the Secretary of Treasury for collection.

OBJECTIVES, SCOPE AND METHODOLOGY

Our review was conducted in accordance with generally accepted government auditing standards. The objectives of our review were to determine whether Palmetto GBA was identifying and collecting overpayments from Medicare providers in a timely manner and to determine whether the DMERC was writing off any overpayments.

To accomplish our objectives, we:

- reviewed HCFA and DMERC policies and procedures for identifying and collecting Medicare DME overpayments;

- extracted outstanding Medicare overpayments for DME greater than $5,000 as of June 30, 1996 totaling $97,470,926 excluding interest. We tested the reliability of computer generated output by comparing data to source documents for our sample items. We did not, however, assess the completeness of data in the DMERC's files, nor did we evaluate the adequacy of the input controls;

- selected a stratified random sample of 90 overpayments. The sample consisted of three strata including:

  - 30 overpayments outstanding 0 to 180 days totaling $2,188,599,

  - 30 overpayments outstanding 181 to 365 days totaling $4,206,704, and

  - 30 overpayment outstanding greater than 365 days totaling $5,061,199.

  We selected 30 overpayments that were outstanding 0 to 180 days from a population of 172 overpayments valued at $15,914,654; 30 overpayments outstanding 181 to 365 days from a population of 135 overpayments valued at $21,613,545; and 30 overpayments outstanding greater than 365 days from a population of 309 overpayments valued at $59,942,727. The age of the overpayments was based on days lapsed from the date of the initial overpayment letter to the provider. Details of the sample selection are contained in Appendix A;

- reviewed the randomly selected overpayments and supporting documentation from the DMERC to determine whether Palmetto GBA was following procedures to collect overpayments from Medicare providers in a timely manner.

- reviewed the DMERC's policies and procedures for instructions concerning writing off Medicare DME overpayments.

Our review of internal controls was limited to an evaluation of that part of the claims processing function that related to the identification and collection of Medicare DME overpayments. Specifically, we reviewed HCFA policies and procedures and instructions to carriers related to the identification and collection of Medicare DME overpayments. We also reviewed Palmetto GBA's internal policies and procedures.

We found that the items tested were in compliance with applicable laws and regulations except for the matters discussed in the FINDINGS AND RECOMMENDATIONS section of this report.

We performed our review between July and November 1996. During this period, we visited Palmetto GBA in Columbia, South Carolina.

FINDINGS AND RECOMMENDATIONS

Our review at Palmetto GBA has identified problems with the overpayment collection process. As of June 30, 1996, the DMERC has identified and recorded $112.6 million in overpayments and interest which have not been collected from the Medicare DME providers. Our review of 90 overpayments showed that established collection procedures were not followed in a timely manner resulting in an excessive dollar amount of outstanding overpayments.

Specifically, we found that the DMERC was not following established collection procedures. The DMERC's position was that they did not have adequate staff to deal with all of the outstanding overpayments. As a result of the DMERC's actions, we believe these overpayments will be much more difficult to collect.

Based on our analysis of the overpayment files, we limited our universe to those overpayments $5,000 or greater. We found that only 10 percent of the overpayments were $5,000 or greater, but that they made up 98 percent of the total overpayment dollars. The results of our review of overpayments are detailed below (and also on Appendix B).

OVERPAYMENTS OUTSTANDING 0 TO 180 DAYS

Our review of 30 Medicare DME overpayments outstanding 0 to 180 days disclosed that 4 percent of the overpayments with second request letters due were not sent to providers within 45 days of the initial overpayment letter; and 91 percent of the overpayments with final demand letters due were not sent to providers within 90 days of the initial overpayment letter. None of these overpayments was due to be transferred to HCFA.

OVERPAYMENTS OUTSTANDING 181 TO 365 DAYS

Our review of 30 Medicare DME overpayments outstanding 181 to 365 days disclosed that 13 percent of the overpayments with second request letters due were not sent to providers

within 45 days of the initial overpayment letter; none of the overpayments with final demand letters due were sent to providers within 90 days of the initial overpayment letter; and none of the overpayments due for transfer to HCFA were transferred after 180 days of the initial overpayment letter.

OVERPAYMENTS OUTSTANDING OVER 365 DAYS

Our review of 30 Medicare DME overpayments outstanding over 365 days disclosed that 3 percent of the overpayments with second request letters due were not sent to providers within 45 days of the initial overpayment letter; none of the overpayments with final demand letters due was sent to providers within 90 days of the initial overpayment letter; and none of the overpayments was transferred to HCFA after 180 days of the initial overpayment letter.

In our sample, there were 6 overpayments outstanding over 500 days as of June 30, 1996 that had not been transferred to HCFA.

OVERPAYMENT WRITE-OFFS

Both HCFA regulations and DMERC's policies and procedures require uncollected overpayments outstanding over 180 days to be transferred to HCFA for collection. There are no provisions for Medicare overpayments to be written off by the DMERC. During our audit, we did not find any instances where the DMERC had written off provider overpayments.

RECOMMENDATIONS

Based on the results of our audit, we recommend that the DMERC follow the collection procedures required by HCFA and use more aggressive collection efforts especially during the first few months after the overpayment is identified. If the DMERC follows HCFA's and their own established collection procedures, the $112.6 million in outstanding overpayments and interest could be significantly reduced or eliminated.

Once implemented, the Debt Collection Improvement Act of 1996 will require non-tax debts owed to the United States over 180 days delinquent to be turned over to the Secretary of Treasury for collection.

HCFA COMMENTS

On November 8, 1996, we provided HCFA an early notification on the results of our review. On December 16, 1996, HCFA informed us that they concurred with our findings and that aggressive corrective actions are being taken such as requiring

corrective action plans from the DMERC and HCFA regional staff overseeing the recoupment of overpayments by the DMERC.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5)

Sincerely yours,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

APPENDIX A

DMERC Overpayments over $5,000
As of June 30, 1996

Stratum	Population	Dollars	Sample	Dollars
0 to 180 Days Old	172	$15,914,654	30	$2,188,599
181 to 365 Days Old	135	21,613,545	30	4,206,704
Greater Than 365 Days Old	309	59,942,727	30	5,061,199
Total	616	$97,470,926	90	$11,456,502

Note: Overpayments and interest recorded as of June 30, 1996 totaled $112.6 million. We sampled overpayments over $5,000 (not including interest) that totaled $97,470,926.

Review of DMERC Overpayments
Palmetto Government Benefits Administrators
Columbia, South Carolina
Audit Period 10/1/93 - 6/30/96
CIN: A-04-96-01144

SUMMARY OF OVERPAYMENTS REVIEWED

STRATUM	SAMPLE SIZE	2ND REQUEST NOT ON TIME			%	FINAL DEMAND NOT ON TIME			%	NOT REFERRED TO HCFA ON TIME			%
0 TO 180 DAYS	30	1	OF	26	3.8%	10	OF	11	90.9%	0	OF	0	
181 TO 365 DAYS	30	4	OF	30	13.3%	30	OF	30	100.0%	30	OF	30	100.0%
> 365 DAYS	30	1	OF	30	3.3%	30	OF	30	100.0%	30	OF	30	100.0%
TOTAL	90	[1] 6	OF	86	7.0%	[2] 70	OF	71	98.6%	[3] 60	OF	60	100.0%

NOTES:

[1] 2ND REQUEST: Of the 90 cases reviewed, 80 second request letters were on time, 6 were not on time (within 45 days of the initial overpayment letter) and 4 cases were not due for second request letters.

[2] FINAL DEMAND: Of the 90 cases reviewed, 1 final demand letter was on time, 70 were not on time (within 90 days of the initial overpayment letter) and 19 cases were not due for final demand letters.

[3] HCFA REFERRAL: Of the 90 cases reviewed, 60 of the cases were not referred to HCFA on time (within 180 days of the initial overpayment letter), and 30 cases were not due to be referred to HCFA.