



DEC 18 2002

TO: Thomas Scully
Administrator
Centers for Medicare and Medicaid Services

FROM: Janet Rehnquist *Janet Rehnquist*
Inspector General

SUBJECT: Review of Medicare Part B Fee Schedule Amounts for Semi-Electric Hospital Beds (A-09-01-00109)

Attached is a copy of our final report providing the results of our self-initiated review of Medicare Part B fee schedule amounts for semi-electric hospital beds.

In written comments, the Centers for Medicare and Medicaid Services (CMS) concurred with the second option in our recommendation and agreed to take corrective action. The CMS did not agree that the first option was feasible. The CMS comments are included as APPENDIX C to our report.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me or George Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Services Audits at (410) 786-7104 or through e-mail at greeb@oig.hhs.gov. To facilitate identification, please refer to report number A-09-01-00109 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICARE PART B
FEE SCHEDULE AMOUNTS FOR
SEMI-ELECTRIC HOSPITAL BEDS**



**JANET REHNQUIST
INSPECTOR GENERAL**

DECEMBER 2002

A-09-01-00109



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SUBJECT: Review of Medicare Part B Fee Schedule Amounts for Semi-Electric Hospital Beds (A-09-01-00109)

This report provides you the results of our "Review of Medicare Part B Fee Schedule Amounts for Semi-Electric Hospital Beds." The objective of our audit was to determine whether Medicare Part B monthly rental amounts and maintenance and servicing fees for semi-electric hospital beds with accessories were paid using the least costly alternative.

When a mattress and bed side rails are provided to a beneficiary at the same time as a semi-electric hospital bed, the suppliers are required to bill Medicare using an all-inclusive procedure code, Health Care Financing Administration Common Procedure Coding System (HCPCS) code E0260.¹ Nationwide, Medicare reimbursement for this HCPCS code during Calendar Year (CY) 2000 totaled \$189 million for monthly rental payments and \$28 million for maintenance and servicing fees.

Prior Office of Inspector General (OIG) reports found that the Medicare rates for rental of semi-electric hospital beds were substantially higher than other payers' rates. As a result, OIG recommended that the Centers for Medicare and Medicaid Services (CMS)² use its "inherent reasonableness" authority to limit Medicare reimbursement amounts for rentals of semi-electric beds. However, since Congress has imposed a moratorium on CMS's use of its "inherent reasonableness" authority, CMS is precluded from using this authority to make a determination that fee schedule amounts are excessive.

Our review disclosed that Medicare Part B fee schedule amounts for semi-electric hospital beds remain high. We found that HCPCS code E0260 fee schedule amounts were excessive when compared to combinations of other fee schedule amounts, such as HCPCS codes E0294 plus either E0305 or E0310 for a semi-electric hospital bed with a mattress plus side rails. We estimated that the use of two alternative code combinations could result in savings of approximately \$34.3 million per year, consisting of \$25.9 million for monthly rental payments and \$8.4 million for maintenance and servicing fees. In addition, Medicare beneficiaries, Medicaid programs, or supplemental insurers could save approximately \$8.6 million per year in coinsurance. Over a 5-year period, Medicare could save an estimated \$171.5 million if CMS requires suppliers to submit claims using alternative HCPCS code combinations. Accordingly, we recommend that CMS either:

¹Represents a hospital bed, semi-electric (head and foot adjustment) with a mattress and any type side rails.

²Prior to July 1, 2001, CMS was known as the Health Care Financing Administration.

- Invalidate the use of HCPCS code E0260 and, instead, reimburse for semi-electric hospital beds with mattress and bed side rails based on the least costly alternative HCPCS codes; or
- Issue a final rule on the application of its inherent reasonableness authority so that this authority can be used to adjust the fee schedule amounts for HCPCS code E0260.

In its written comments to our draft report, CMS believes that a final rule on inherent reasonableness will be published in the near future and indicated that it will consider reviewing the payments for semi-electric hospital beds. However, CMS did not agree that invalidating the use of HCPCS code E0260 and instead reimbursing based on component codes, was feasible. The CMS comments are summarized at the end this report and included as APPENDIX C.

INTRODUCTION

BACKGROUND

A semi-electric hospital bed is considered by Medicare to be durable medical equipment (DME). The legislative authority for coverage of DME is contained in sections 1834 and 1861 of the Medicare Part B provisions in Title XVIII of the Social Security Act. Governing regulations are found in 42 CFR and CMS coverage and billing guidelines are found in various Medicare and durable medical equipment regional carriers (DMERC) manuals.

Least Costly Alternative Criteria

The Medicare Program Integrity Manual (PIM) chapter 13, section 5.4 states that:

“Least costly alternative is a national policy provision that must be applied by contractors when determining payment for all durable medical equipment.”

This section of the PIM also references the Medicare Carriers Manual, part 3, section 2100.2 C which states: “...where there exists a reasonably feasible and medically appropriate alternative pattern of care which is less costly than the equipment furnished, the amount payable is based on the reasonable charge for the equipment or alternative treatment which meets the patient’s medical needs.”

DMERC Responsibility

For DME items, CMS administers the Medicare program through four regional contractors referred to as DMERCs. These DMERCs perform all duties associated with processing claims for DME under Part B of the Medicare program. To accomplish these duties, each DMERC issues a supplier manual that provides guidance to suppliers of DME, prosthetics, orthotics, and supplies. The four DMERCs are:

- Region A – HealthNow New York, Inc.,
- Region B – AdminaStar Federal, Inc.,
- Region C – Palmetto Government Benefits Administrators, and
- Region D – CIGNA HealthCare Medicare Administration.

DMERC's Coding Guidelines for Semi-Electric Hospital Beds and Accessories

There are various combinations of HCPCS codes for semi-electric beds, with the most comprehensive code being HCPCS code E0260, for a semi-electric hospital bed with any type side rails and mattress. The coding guidelines contained in the Medical Policies sections of the supplier manuals issued by each of the four DMERCs instruct suppliers that when a mattress and bed side rails are provided at the same time as a semi-electric hospital bed, HCPCS code E0260 for the combined items should be used. The HCPCS codes for semi-electric hospital beds, bed side rails, and mattresses are listed in APPENDIX A.

Medicare Reimbursement Methodology for DME

Medicare Part B pays for the rental or purchase of medically necessary DME based on established fee schedules for the 56 pricing localities, including Washington D.C. and 5 U.S. territories. There are six payment categories for DME. Semi-electric hospital beds and related accessories come under the categories of either capped rental items or inexpensive or routinely purchased items. The classification as either capped rental items or inexpensive or routinely purchased items are shown in APPENDIX A.

Medicare Policies for Capped Rental Items Semi-electric hospital beds are capped rental items, which are reimbursed by means of DMERC monthly fee schedules as follows:

- 10 percent of the allowed equipment purchase price for each of the first 3 months of rental; and
- 7.5 percent of the allowed equipment purchase price for each of the remaining months for which Medicare will make payment.

During the 10th month of the capped rental period, beneficiaries are offered the option to purchase or continue to rent the bed. If a beneficiary selects the purchase option, monthly reimbursements to the supplier must continue through the 13th month, at which time title to the

bed passes to the beneficiary. If the beneficiary elects to continue to rent a bed, rental payments will end upon completion of the 15th month. After rental payments end, Medicare will pay a maintenance and servicing fee once every 6 months.

Billing modifiers were established in order to identify the rental month. Modifier “KH” is used to identify the first month, modifier “KI” is used for the second and third month, and modifier “KJ” is used for each subsequent month. Monthly fee schedule amounts for claims with “KH” and “KI” modifiers are set at 10 percent of the allowed equipment purchase price, and the fee schedule amounts for claims with the “KJ” modifier are set at 7.5 percent of the allowed equipment purchase price.

Inexpensive or Routinely Purchased Items Inexpensive or routinely purchased DME include items such as certain bed side rails and mattresses for semi-electric hospital beds. This equipment can either be purchased or rented. If a beneficiary decides to rent an inexpensive or routinely purchased item, rental payments may not exceed the fee schedule amount recognized for the purchase of that item. Maintenance and servicing fees do not apply to the inexpensive or routinely purchased equipment.

Medicare Policies for Assignment and Coinsurance

A supplier that accepts assignment agrees to accept the Medicare approved amount as payment in full. Medicare beneficiaries, Medicaid programs, or supplemental insurers are responsible for 20 percent of the Medicare approved amount, after the annual deductible, for items and services provided by suppliers. This sharing in the cost of medical services is known as coinsurance or copayment. The combination of Medicare program payments and coinsurance should total 100 percent of the Medicare approved amount.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether Medicare Part B monthly rental amounts and maintenance and servicing fees for semi-electric hospital beds with accessories were paid using the least costly alternative.

Scope and Methodology

The Medicare reimbursement for semi-electric hospital beds during the CY 2000 totaled \$189 million in monthly rental payments and \$28 million in maintenance and servicing fees on a nationwide basis. Over 99.9 percent of Medicare payments for semi-electric hospital beds were made under HCPCS code E0260 for a semi-electric hospital bed with mattress and any type side rails.

We evaluated whether the fee schedule amounts for the all-inclusive HCPCS code E0260 were greater than the sum of the fee schedule amounts for the HCPCS codes of the components (i.e., semi-electric hospital bed, mattress, and side rails) or a combination thereof. To accomplish this task, we performed the following audit steps for each of the 56 pricing localities, including Washington D.C. and 5 U.S. territories:

- We reviewed past and current legislation and regulations pertaining to Medicare reimbursement of DME, particularly semi-electric hospital beds and bed accessories.
- We reviewed prior OIG reports on payments for semi-electric hospital beds.
- We reviewed the DMERC's CY 2000 Medicare fee schedules for the various HCPCS codes to determine (i) the classification of items between capped rental and inexpensive or routinely purchased items and (ii) the monthly rental amounts.
- We developed payment models for a 15-month period based on Medicare reimbursement requirements for semi-electric hospital beds. The 15-month period was used since we did not obtain utilization data for each beneficiary during CY 2000. For inexpensive or routinely purchased items included in our payment model, we assumed that these items were rented for the full 15-month period and limited the total allowance to the fee schedule purchase amount. Because HCPCS code E0260, used for semi-electric hospital beds, did not identify the type of bed side rails and mattress provided, our payment models were based on the most expensive bed side rails and mattress. This approach provided a conservative estimate of cost savings.

We calculated the potential cost savings for the monthly rental payments and maintenance and servicing fees based on the following:

- We calculated the differences between the fee schedule amounts for selected HCPCS code combinations and HCPCS code E0260 for the first 3 months (modifiers "KH" and "KI") and for the remaining months (modifier "KJ"). We then applied the differences for the three modifiers to the respective CY 2000 paid service line items. Although rental payments for inexpensive or routinely purchased items are limited to the purchase price (which normally occurred within 8 to 10 months), the statistics we used did not identify the actual monthly usage by beneficiary. Therefore, potential cost savings could be understated because we were unable to apply this limitation.
- We used the same capped rental HCPCS code(s) for maintenance and servicing fees (modifier "MS") as were used for calculating the monthly rental cost savings. Although this approach did not always result in the least costly alternative, use of the same HCPCS code(s) allowed for consistency in analysis.

- The monthly rental and the maintenance and servicing fee savings were split between the Medicare program and beneficiaries' coinsurance. The savings to Medicare beneficiaries were calculated as if all suppliers accepted assignment.³

The formula for calculating Medicare savings for each locality by modifiers:

$$\left[\left(\begin{array}{l} \text{Fee Schedule} \\ \text{Amount for} \\ \text{E0260} \end{array} - \begin{array}{l} \text{Fee Schedule Amount} \\ \text{for Alternative Code} \\ \text{Combination} \end{array} \right) \times \begin{array}{l} \text{Service} \\ \text{Line} \\ \text{Items} \end{array} \right] \times 80\% = \begin{array}{l} \text{Projected} \\ \text{Medicare} \\ \text{Savings} \end{array}$$

Our review was conducted in accordance with generally accepted government auditing standards. We did not review the overall internal control structure of the carriers or of the Medicare program, since such a review was not necessary to accomplish our audit objective. We conducted our audit work from October 2001 to February 2002.

FINDINGS AND RECOMMENDATIONS

SEMI-ELECTRIC HOSPITAL BED FEE SCHEDULE AMOUNTS

Our review disclosed that Medicare Part B fee schedule amounts for semi-electric hospital beds remain high. The HCPCS code E0260 fee schedule amounts were excessive when compared to combinations of other fee schedule amounts, such as HCPCS codes E0294 plus either E0305 or E0310 for a semi-electric hospital bed with a mattress plus side rails. We estimated that the use of the alternative code combinations could result in savings of approximately \$34.3 million per year, consisting of \$25.9 million for monthly rental payments and \$8.4 million for maintenance and servicing fees. The schedule of potential Medicare savings for rental payments and maintenance and servicing fees by pricing locality is shown in APPENDIX B. In addition, Medicare beneficiaries, Medicaid programs, or supplemental insurers could save approximately \$8.6 million per year in coinsurance. Over a 5-year period, Medicare could save an estimated \$171.5 million if CMS requires suppliers to submit claims using alternative HCPCS code combinations.

Prior OIG Reports on Semi-Electric Hospital Bed Rates

A November 1998 Office of Evaluation and Inspections (OEI) report entitled, "*Medicare Reimbursement for Hospital Beds in the Home: Prices*" OEI-07-96-00221, found that Medicare rates for rentals of hospital beds are substantially higher than rates paid by most other payers. In addition, a November 1998 companion OEI report entitled, "*Medicare Reimbursement for Hospital Beds in the Home: Payment Methodology*" OEI-07-96-00222, found that Medicare was the only insurer that allows for an enhanced rate for the first 3 months of rental.

³For CY 2000, the Medicare assigned claims represented 99.5 percent of all semi-electric hospital bed payments.

The OIG recommended that CMS use its “inherent reasonableness” authority to limit Medicare reimbursement amounts for semi-electric beds. However, under the Balanced Budget Refinement Act of 1999, a moratorium was imposed on CMS’s use of its “inherent reasonableness” authority. Accordingly, until the final rule is issued, the moratorium remains in effect thereby precluding CMS from using this authority to make a determination that fee schedule amounts are excessive.

Least Costly Alternative

In lieu of CMS’s application of its “inherent reasonableness” authority, CMS could establish an alternate payment policy for semi-electric beds and related accessories. Medicare payments could be based on fee schedule amounts for the least costly combination of codes for the items provided. Currently, DMERCs require suppliers to use HCPCS code E0260 when a mattress and bed side rails are provided at the same time as a semi-electric hospital bed. However, the E0260 fee schedule amounts for each locality were not the least costly alternative. In fact, our review of CY 2000 fee schedule amounts for HCPCS code E0260 showed that the amounts never resulted in the least costly alternative over a 15-month rental period when inexpensive or routinely purchased items were limited to the fee schedule purchase amounts.

Implementation of the Least Costly Alternative

In most cases, the alternative HCPCS code combinations, as presented in Figure 1 below, represented the least costly alternatives for a semi-electric hospital bed with a mattress plus side rails. For five pricing localities, the least costly alternative differed from the coding combinations shown in Figure 1; however, the cost savings differences were insignificant. Therefore, we believe the use of the alternative HCPCS code combinations in lieu of HCPCS code E0260 would meet the overall intent of Medicare’s least costly alternative criteria and at the same time ease the administrative burden on DMERCs. A separate coding combination is shown for Puerto Rico since it resulted in significantly more cost savings to both the Medicare program and its beneficiaries.

| Pricing Localities | Alternative HCPCS Code Combinations |
|---|---|
| For all Pricing Localities except Puerto Rico | E0294 plus (E0305 or E0310) |
| For Puerto Rico only | E0295 plus (E0271 or E0272) plus (E0305 or E0310) |

Figure 1

This approach of substituting alternative coding combinations for the all-inclusive HCPCS code E0260 is similar to one already implemented by DMERCs for walkers. The policy revision, issued in September 1998, invalidated the all-inclusive HCPCS codes for walkers with a seat (E0142, E0145, E0146) for submission of Medicare claims. The policy, which continues to be in

effect as of the date of this report, instructs suppliers to submit claims using HCPCS codes for individual accessories, including a seat, along with a base walker code.

Potential Cost Savings

We estimated that, over a 5-year period, Medicare could save \$171.5 million if CMS requires suppliers to bill using the alternative HCPCS code combinations as indicated in Figure 1. This savings estimate has not been indexed for inflation.

The estimated savings are based on CY 2000 Medicare fee schedule amounts and claims paid service line items. Since we did not identify the actual monthly usage per beneficiary, we were unable to apply a rental payment cap on the inexpensive or routinely purchased items. Use of the alternative code combinations identified could result in estimated savings of \$34.3 million per year, consisting of \$25.9 million for monthly rental payments and \$8.4 million for maintenance and servicing fees. In addition, Medicare beneficiaries, Medicaid programs, or supplemental insurers could save approximately \$8.6 million per year in coinsurance.

RECOMMENDATIONS

We recommend that CMS either:

- Invalidate the use of HCPCS code E0260 and, instead, reimburse for semi-electric hospital beds with mattress and bed side rails based on the least costly alternative HCPCS codes; or
- Issue a final rule on the application of its “inherent reasonableness” authority so that this authority can be used to adjust the fee schedule amounts for HCPCS code E0260.

CMS’S COMMENTS

In its written comments to our draft report, CMS believes that a final rule on inherent reasonableness will be published in the near future and will consider reviewing the payments for semi-electric hospital beds, particularly code E0260, once this final rule is published.

However, CMS did not agree that invalidating the use of HCPCS code E0260 and instead reimbursing based on component codes was feasible. The CMS indicated that the fee schedule calculations for code E0260 more accurately reflected the fee schedule calculation requirements set forth in the statute for these items than the fee schedule calculations for the component codes. Because the fee schedule amount for E0260 was established using actual 1986 charge data, it more closely represents the payment amounts required by statute than the gap-fill fee schedule amounts for the component codes, E0294 and E0295.

The text of CMS comments is included in APPENDIX C to this report. The CMS also made some technical comments which we have incorporated into the final report, where appropriate.

OIG’S RESPONSE

If a final rule on inherent reasonableness is published, CMS should review payments for semi-electric hospital beds since the potential savings from such a review is significant. Even though some of the component codes used in the potential savings estimate included in this report were not based on charge data, the estimate provides an indication of the potential savings. Once the final rule on inherent reasonableness is published, actual savings realized may be higher or lower than our estimate.

In testimony before the Senate Appropriations Labor, Health and Human Services Subcommittee on Education on June 12, 2002, CMS indicated that current competitive bidding demonstration projects showed Medicare costs could be reduced for DME supplies, such as hospital beds. In addition, prior OIG reviews have shown that Medicare payment rates for hospital beds are substantially higher than other payers’ rates.

If a final rule on inherent reasonableness is not published timely, CMS should reconsider invalidating the use of HCPCS code E0260 and instead reimburse based on least costly alternative HCPCS codes.

APPENDICES

**Schedule of HCPCS Codes for Hospital Beds –
Semi-Electric and Other Bed Accessories**

| Hospital Beds – Semi-Electric | | |
|--------------------------------------|--|-------------------------------------|
| HCPCS Codes | Description | Payment Category¹ |
| E0260 | Hospital bed, semi-electric (head and foot adjustment), with any type side rails, with mattress | CR |
| E0261 | Hospital bed, semi-electric (head and foot adjustment), with any type side rails, without mattress | CR |
| E0294 | Hospital bed, semi-electric (head and foot adjustment), without side rails, with mattress | CR |
| E0295 | Hospital bed, semi-electric (head and foot adjustment), without side rails, without mattress | CR |
| Other Bed Accessories | | |
| HCPCS Codes | Description | Payment Category |
| E0271 | Mattress, Innerspring | IN |
| E0272 | Mattress, Foam Rubber | IN |
| E0305 | Bed Side Rails, Half Length | CR |
| E0310 | Bed Side Rails, Full Length | IN |

¹Payment Categories are:

CR – Capped Rental Items

IN – Inexpensive or Routinely Purchased Items

**Schedule of Potential Medicare Savings for Rental Payments and
Maintenance and Servicing Fees by Pricing Locality**

| Pricing Localities | Alternative Code Combinations | Potential Medicare Savings for Rental Payments | Potential Medicare Savings for Maintenance and Servicing Fees |
|---------------------------|--------------------------------------|---|--|
| Alabama | E0294+E0305 | \$ 578,621 | \$ 80,655 |
| Alaska | E0294+E0305 | 46,128 | 3,651 |
| American Samoa | E0294+E0305 | 583 | 97 |
| Arizona | E0294+E0305 | 150,439 | 12,150 |
| Arkansas | E0294+E0310 | 183,033 | 98,801 |
| California | E0294+E0305 | 2,754,227 | 429,994 |
| Colorado | E0294+E0305 | 85,075 | 11,882 |
| Connecticut | E0294+E0305 | 127,885 | 14,062 |
| Delaware | E0294+E0305 | 53,098 | 7,893 |
| District of Columbia | E0294+E0305 | 47,394 | 6,226 |
| Florida | E0294+E0310 | 563,150 | 263,020 |
| Georgia | E0294+E0310 | 276,794 | 184,533 |
| Guam | E0294+E0305 | 2,158 | 24 |
| Hawaii | E0294+E0305 | 140,635 | 13,991 |
| Idaho | E0294+E0305 | 67,523 | 4,306 |
| Illinois | E0294+E0305 | 688,856 | 81,589 |
| Indiana | E0294+E0305 | 369,982 | 36,360 |
| Iowa | E0294+E0305 | 84,490 | 8,756 |
| Kansas | E0294+E0305 | 185,484 | 21,566 |
| Kentucky | E0294+E0305 | 421,171 | 63,298 |
| Louisiana | E0294+E0310 | 84,484 | 108,558 |
| Maine | E0294+E0305 | 79,275 | 6,701 |
| Mariana Island | E0294+E0305 | 0 | 0 |
| Maryland | E0294+E0305 | 360,000 | 37,322 |
| Massachusetts | E0294+E0305 | 265,802 | 29,862 |
| Michigan | E0294+E0310 | 591,812 | 208,010 |
| Minnesota | E0294+E0305 | 52,821 | 4,490 |
| Mississippi | E0294+E0305 | 337,813 | 54,506 |
| Missouri | E0294+E0305 | 252,570 | 31,098 |
| Montana | E0294+E0305 | 40,541 | 2,363 |
| Nebraska | E0294+E0305 | 103,039 | 10,853 |
| Nevada | E0294+E0305 | 58,341 | 5,946 |
| New Hampshire | E0294+E0305 | 50,855 | 5,663 |

**Schedule of Potential Medicare Savings for Rental Payments and
Maintenance and Servicing Fees by Pricing Locality**

| Pricing Localities | Alternative Code Combinations | Potential Medicare Savings for Rental Payments | Potential Medicare Savings for Maintenance and Servicing Fees |
|---------------------------|--------------------------------------|---|--|
| New Jersey | E0294+E0310 | 563,137 | 189,906 |
| New Mexico ² | E0294+E0305 | (6,524) | (656) |
| New York | E0294+E0305 | 1,514,059 | 244,466 |
| North Carolina | E0294+E0305 | 720,768 | 88,815 |
| North Dakota | E0294+E0310 | 7,734 | 915 |
| Ohio | E0294+E0305 | 803,108 | 93,216 |
| Oklahoma | E0294+E0305 | 292,154 | 32,121 |
| Oregon | E0294+E0310 | 106,382 | 31,767 |
| Pennsylvania | E0294+E0305 | 1,172,582 | 162,792 |
| Puerto Rico | E0295+E0310+E0271 | 8,289,617 | 5,043,051 |
| Rhode Island | E0294+E0310 | 15,398 | 4,357 |
| South Carolina | E0294+E0310 | 212,698 | 99,016 |
| South Dakota | E0294+E0305 | 23,334 | 1,599 |
| Tennessee | E0294+E0310 | 266,587 | 160,282 |
| Texas | E0294+E0305 | 1,755,164 | 260,016 |
| Utah | E0294+E0305 | 56,491 | 4,387 |
| Vermont | E0294+E0305 | 17,276 | 1,831 |
| Virgin Islands | E0294+E0305 | 8,272 | 50 |
| Virginia | E0294+E0305 | 115,232 | 12,287 |
| Washington | E0294+E0305 | 283,374 | 28,718 |
| West Virginia | E0294+E0310 | 268,072 | 63,650 |
| Wisconsin | E0294+E0305 | 302,193 | 36,572 |
| Wyoming | E0294+E0305 | 41,577 | 2,564 |
| Total | | \$ 25,932,764 | \$ 8,409,948 |

²The OIG decision to use E0294 + E0305 or E0310 instead of the least costly alternative for five states resulted in a small negative cost savings projection for the state of New Mexico.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

RECEIVED

2002 JUL 23 AM 11:55

Administrator
Washington, DC 20201

DATE: JUL 23 2002

TO: Janet Rehnquist
Inspector General

OFFICE OF INSPECTOR
GENERAL

FROM: Thomas A. Scully *TAS*
Administrator
Centers for Medicare & Medicaid Services

SUBJECT: Office of Inspector General (OIG) Draft Report: *Review of Medicare Part B Fee Schedule Amounts for Semi-Electric Hospital Beds (A-09-01-00109)*

Thank you for the opportunity to comment on the above-referenced draft report which seeks to determine whether Medicare Part B monthly rental amounts, and maintenance and servicing fees for semi-electric hospital beds with accessories were paid using the least costly alternative. The Centers for Medicare & Medicaid Services (CMS) has reviewed this report and offers the following comments.

The Medicare program covers electric hospital beds as durable medical equipment (DME). Claims for payment are submitted to one of four Durable Medical Equipment Regional Carriers (DMERCs) using one of several HCPCS codes that reflect the specific features of the beds. The DMERCs pay for the equipment according to a fee schedule, which has been developed over time using several different methodologies, depending on the HCPCS codes. For example, payment for code E0260, the code of greatest concern in this report, was established using actual 1986 charge data. On the other hand, payments for codes E0294 and E0295 were gap-filled by carriers using a formula developed by CMS that looks at payments for similar items. It is in this context that we review the OIG recommendations.

The OIG recommended that CMS implement one of the following two recommendations:

- Invalidate the use of HCPCS code E0260 and, instead, reimburse for semi-electric hospital beds with mattress and bed side rails based on the least costly alternative HCPCS codes; or
- Issue a final rule on the application of its inherent reasonableness authority so that this authority can be used to adjust the fee schedule amounts for HCPCS code E0260.

The CMS has agreed to implement the OIG's second recommendation as stated below.

OIG Recommendation:

The CMS should invalidate the use of HCPCS code E0260 and reimburse for semi-electric hospital beds using a combination of codes/fees for the bed, mattress, and side rail components since the sum of the fees for the components is less than the fee for code E0260.

Page 2 – Janet Rehnquist

CMS Response:

We disagree with this recommendation. The fee schedule calculations for code E0260 more accurately reflect the fee schedule calculation requirements set forth in the statute for these items than the fee schedule calculations for the component codes.

Because the fee schedule amount for code E0260 was established using actual 1986 charge data, it more closely represents the payment amounts required by statute than the gap-filled fee schedule amounts for codes E0294 and E0295. Therefore, payment for items billed under code E0260 should not be based on the lower combined bed/mattress/side rail fees. If anything, an argument could be made to increase the fees for codes E0294 and E0295 so that they are comparable to the fees for E0260 and E0261, when billed in conjunction with the appropriate mattress and side rail accessories.

OIG Recommendation:

The CMS should issue a final rule on the application of the Inherent Reasonableness (IR) authority so that it can use this authority to adjust Medicare payment amounts for semi-electric hospital beds (HCPCS code E0260).

CMS Response:

We believe that a final rule on IR will be published in the near future. We will consider reviewing payments for semi-electric hospital beds, particularly code E0260, once this final rule is published.

OIG NOTE: The CMS also made technical comments which we have incorporated into the final report, where appropriate. We deleted the technical comments since they are no longer relevant.