



CALIFORNIA STATE AUDITOR

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FACT SHEET

Date: June 17, 2008

Report: 2007-122

The California State Auditor released the following report today:

Department of Health Care Services

Although Notified of Changes in Billing Requirements, Providers of Durable Medical Equipment Frequently Overcharged Medi-Cal

BACKGROUND

The California Medical Assistance Program (Medi-Cal), administered by the Department of Health Care Services (Health Care Services), provides medical assistance to more than six million beneficiaries each month. Medi-Cal covers health care needs including durable medical equipment (medical equipment), such as wheelchairs, bathroom equipment, and hospital beds that are prescribed by licensed practitioners. For fiscal year 2007–08, the State's General Fund provided roughly 40 percent of Health Care Services' budget for Medi-Cal expenditures, with the remainder coming mostly from federal funds. Health Care Services is responsible for reimbursing Medi-Cal providers for supplying medical equipment using a system designed by both federal and state governments.

KEY FINDINGS

In our review of Health Care Services' Medi-Cal billing system for medical equipment, we reported the following:

- Although Health Care Services' policies and procedures regarding reimbursement methodologies for medical equipment appear to comply with state law and federal requirements and are adequately communicated to providers, providers often do not bill at the allowable amounts, which are the lowest cost options.
- Health Care Services has not identified a practical means to monitor and enforce billing and reimbursement procedures it implemented in 2003. As such, Health Care Services has overpaid providers. In its review of 21 providers of wheelchairs and accessories with listed Medicare prices, Health Care Services determined that it had overpaid about \$1.2 million, or 25 percent of the \$4.9 million billed during September 1, 2005, through August 31, 2006.
- Although Health Care Services has recovered almost \$960,000 of the \$1.2 million in overpayments, it does not know the extent to which other providers may have overbilled for medical equipment. Further, its review did not include billings for equipment without listed Medicare prices. In our review of billings without listed prices, we found that providers of wheelchairs and accessories typically charged (and Health Care Services reimbursed) the manufacturer's suggested price without sufficient evidence to support it was the lowest-priced option.
- Although Health Care Services intends to use post-payment audits to enforce price controls, its current payment error rate studies of overall Medi-Cal payments do not provide adequate audit coverage of medical equipment payments to effectively ensure compliance. Further, while its 21 audits in 2007 and 2008 focusing on providers of wheelchairs and accessories with listed Medicare prices effectively identified noncompliance with the billing and reimbursement procedures, Health Care Services has not identified plans or resources to conduct additional focused audits of medical equipment providers.

KEY RECOMMENDATIONS

We recommended that Health Care Services take the following actions:

- Develop a means of monitoring and enforcing its current billing and reimbursement procedures for medical equipment, including giving consideration to developing reimbursement caps in order to maintain control over reimbursement costs.
- Design and implement a cost-effective approach to address the risk of overpayment and ensure all providers are potentially subject to an audit in order to provide a deterrent for noncompliance.

