Report in Brief
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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

Pacific Medical, Inc., Received Some Unallowable Medicare Payments for Orthotic Braces

Why OIG Did This Review

From January 1, 2015, through March 31, 2017 (audit period), Medicare paid approximately $1.3 billion for back, knee, and ankle-foot braces (selected orthotic braces) provided to Medicare beneficiaries. Prior OIG reviews found that some suppliers of durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) billed for orthotic braces that did not comply with Medicare billing requirements. During our audit period, the Centers for Medicare & Medicaid Services found that orthotic braces were among the top 20 DMEPOS items with the highest improper payment rates. After analyzing Medicare claim data, we selected for review Pacific Medical, Inc., an orthotic braces supplier in Tracy, California.

Our objective was to determine whether Pacific Medical complied with Medicare requirements when billing for selected orthotic braces.

How OIG Did This Review

For our audit period, Pacific Medical received approximately $6.2 million in Medicare Part B payments for selected orthotic braces. After excluding certain claims, we reviewed a stratified random sample of 100 claims. We provided copies of Pacific Medical's supporting documentation to a medical review contractor to determine whether claims for orthotic braces met Medicare requirements.

What OIG Found

Pacific Medical did not always comply with Medicare requirements when billing for selected orthotic braces. For 89 of the 100 sampled claims, Pacific Medical complied with the requirements. However, for the remaining 11 claims, it did not comply with the requirements. Specifically, Pacific Medical billed for orthotic braces that were not medically necessary for nine claims and could not provide medical records for two claims.

These deficiencies occurred because Pacific Medical did not always obtain sufficient information from the beneficiaries' medical records to assure itself that the claims for orthotic braces met Medicare requirements. On the basis of our sample results, we estimated that Pacific Medical received at least $247,493 in unallowable Medicare payments for orthotic braces.

What OIG Recommends and Pacific Medical Comments

We recommend that Pacific Medical (1) refund to the durable medical equipment Medicare administrative contractors $247,493 in estimated overpayments for orthotic braces; (2) exercise reasonable diligence to identify and return any additional similar overpayments outside of our audit period, in accordance with the 60-day rule, and identify any returned overpayments as having been made in accordance with this recommendation; and (3) obtain as much information from beneficiary medical records as it determines necessary to assure itself that claims for orthotic braces meet Medicare requirements.

Pacific Medical did not concur with our first recommendation but concurred with our second and third recommendations to the extent that it continues to conduct self-audits and respond to ongoing recovery audit contractor audits. Regarding our first recommendation, Pacific Medical stated that (1) the extrapolated overpayment was unreasonable and that our report failed to reference the authority to extrapolate; (2) as an accredited supplier, Pacific Medical follows the direction of referring licensed physicians in providing specific DMEPOS; and (3) it believes where it has documentation of an order and delivery, it should receive, at a minimum, reimbursement for the least costly alternative to the delivered product. Our response is that (1) Federal courts have consistently upheld extrapolation as a valid means to determine overpayment amounts in Medicare and Medicaid; (2) if the information in a beneficiary's medical record does not adequately support medical necessity, the supplier is liable for the dollar amount of the orthotic brace; and (3) our report clarifies that OIG recommendations do not represent final determinations by Medicare but are recommendations to HHS action officials.

The full report can be found at https://oig.hhs.gov/oas/reports/region9/91703027.asp.