Office of the New York State Comptroller

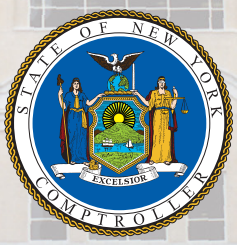
Division of State Government Accountability

United HealthCare

New York State Health Insurance Program

Payments for High Cost Wheelchairs

2010-S-20



Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of State Government Accountability

April 21, 2011

Mr. Carl Mattson
Vice President, Empire Plan
United HealthCare National Accounts
900 Watervliet Shaker Road – Suite 105
Albany, New York 12205

Dear Mr. Mattson:

The Office of the State Comptroller is committed to providing accountability for tax dollars spent to support government operations. This fiscal oversight is accomplished, in part, through our audits, which determine whether entities contracting with the State are fulfilling contract responsibilities. Audits can also identify strategies for reducing costs, improving operations and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of United HealthCare addressing *Payments for High Cost Wheelchairs* under the New York State Health Insurance Plan. This audit was done according to the provisions of the contract between the Department of Civil Service and United HealthCare and the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

The objectives of our audit were to determine why United HealthCare (United) paid so much for certain high-cost wheelchairs and if officials took appropriate steps to ensure these payments were reasonable.

Audit Results – Summary

The New York State Health Insurance Program (NYSHIP) provides health insurance coverage to active and retired State, participating local government and school district employees and their dependents. The Empire Plan (Plan) is the primary health benefits plan for NYSHIP. The Department of Civil Service (Department) contracts with United HealthCare (United) to process medical claims for the Empire Plan (Plan). United covers wheelchairs under the Durable Medical Equipment (DME) benefit of the Plan.

United contracts with a wide variety of medical providers across virtually all specialty areas. These providers are considered to be in-network providers and they agree to accept a contracted rate plus a nominal payment from the Plan member as payment in full for their services. For wheelchairs, United entered into contracts with DME providers. However, the provider contracts had few limitations on reimbursable costs.

For this audit, we focused our analysis on the four providers with the highest amounts paid for wheelchairs. These four providers accounted for $11.2 million (67 percent) of the $16.7 million United paid for wheelchairs during the period January 1, 2007 through February 28, 2010. The contracts with these four providers include fee schedules that specify reimbursement rates for many DME items. However, many wheelchairs are customized for a particular Plan member to address an individual's specific needs, and as such many of the component parts are not included in the fee schedule. United pays for these non-fee schedule items based on a percentage of the retail price of the item or a percentage of the provider's charges.

We examined $2.9 million of claims paid to the four suppliers for 79 high end wheelchairs provided to people covered by the Plan. On average, United paid these providers $37,000 each for these wheelchairs; resulting in an average gross profit of more than $20,000 per chair. This situation occurs primarily because the Plan, designed by the State and the Health Insurance Council, includes few restrictions on payments made for high cost wheelchairs and accessories. In addition, United does an inadequate job of monitoring claims to ensure that suppliers comply

with the few restrictions that do exist, including making sure that prices are accurate and discounts are appropriate. Our review disclosed overpayments to providers totaling $100,993 simply because claims exceeded contract limits or included non-covered items.

In August 2009, the federal Department of Health and Human Services' Office of Inspector General questioned whether $5,600 was an excessive profit for suppliers to make on a complex power wheelchair provided to a Medicare recipient. For the Plan wheelchairs we reviewed we determined that the average cost of the 79 wheelchairs to the suppliers was less than $17,000, but the average payment United made to reimburse the providers was over $37,000; more than two times the cost of the wheelchair. In one case, United paid almost $48,000 for a chair that only cost the supplier about $15,000. We recognize suppliers have other costs associated with fitting and delivering the chairs, as well as training the patients to use them. Nevertheless, there is reason to question whether the profit made by suppliers for wheelchairs of this nature is excessive.

As the cost of providing health care coverage continues to rise at alarming rates, more must be done to ensure that NYSHIP reimbursement for DME such as high end wheelchairs does not result in excessive provider profits. Our report includes two recommendations directed toward having the State and United work together to better control these costs.

This report dated April 21, 2011, is available on our website at http://www.osc.state.ny.us.
Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Introduction

Background

The New York State Health Insurance Program (NYSHIP) provides health insurance coverage to active and retired State, participating local government and school district employees and their dependants. The Empire Plan (Plan) is the primary health benefits plan for NYSHIP. The Department of Civil Service (Department) contracts with United HealthCare (United) to process and pay medical claims for the Plan. The Home Care Advocacy Program (HCAP) is the Plan program for home care services, durable medical equipment (DME) and certain supplies. DME includes equipment needed to increase mobility, such as wheelchairs. Plan members receive paid-in-full benefits when they obtain pre-authorization from HCAP and use an HCAP approved provider for covered services, supplies and/or equipment. To be an HCAP-covered expense, DME or supplies must be prescribed by a physician, be medically necessary as determined by United's HCAP, and covered under the Plan. Currently, there is no annual cap on DME.

DME is a guaranteed access benefit under the Plan, meaning there must be geographical access to those products and services for Plan members. United negotiates national and local contracts with DME providers to supply in-network benefits to plan members. Fee schedules included in the contracts specify reimbursement rates for many DME items. However, many wheelchairs are customized for a particular Plan member and as such many of the component parts are not included in the fee schedules. United pays for these non-fee schedule items based on a percentage of the Manufacturer's Suggested Retail Price or on a percentage of the provider's Usual and Customary charges.

During our audit period, the Plan paid approximately $16.7 million for wheelchairs for Plan members. Our audit focused on United's payments for high-cost wheelchairs. For purposes of this audit, we considered wheelchairs costing $30,000 or more to be high-cost.

While the Department is responsible for the administration of the Plan, a Council on Employee Health Insurance was created to supervise the administration of changes to the health insurance plan and to provide continuing policy direction to insurance plans administered by the State. The Council consists of the Commissioner of the Department, the Director of the Division of Budget and the Director of Employee Relations.

Audit Scope and Methodology

The objectives of our audit were to determine why United paid so much for certain high-cost wheelchairs and if officials took appropriate steps to ensure these payments were reasonable. The audit scope period is January 1, 2007 to February 28, 2010.

To accomplish our objectives, we interviewed United officials who work under the HCAP. Using data analysis techniques, we identified the top providers in terms of total claim payments for wheelchairs. We selected the four providers with the highest amounts paid and reviewed their contracts with United. We selected all 79 wheelchair claims from these four providers where United paid at least $30,000. We visited three of the four providers selected including: Monroe Wheelchair, Home Medical Equipment and Professional Rehab Services. At each provider we interviewed provider staff about procedures. We also obtained invoices, itemized quotes from manufacturers for individual items, patient and home evaluations, delivery documents, providers' cost documentation and prescriptions. The fourth wheelchair provider, Wheelchair Professionals, is headquartered in Missouri and was not visited. We held a phone conference with this provider and obtained documentation for 17 wheelchairs.

We conducted our performance audit according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed according to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

We provided preliminary copies of the matters contained in this report to United officials for their review and comments. Their comments have been taken into consideration in preparing this report.

Within 90 days of the final release of this report, we request United officials to report to the State Comptroller advising what steps were taken to implement the recommendations included in this report.

Contributors to the Report

Major contributors to this report were Steven Sossei, Ed Durocher, David Fleming, Kathleen Hotaling, Laurie Burns, and Frank Commisso.

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Audit Findings and Recommendations

Lack of Oversight Over High-Cost Wheelchairs

United administers the medical/surgical portion of the Plan, and in carrying out this responsibility contracts with a wide variety of medical providers across virtually all specialty areas. These providers are considered to be in-network and they agree to accept a contracted rate plus a nominal payment from the Plan member as payment in full for their services. For this audit, we focused our analysis on the four providers to whom the highest amounts were paid for wheelchairs. These top four providers accounted for $11.2 million (67 percent) of the $16.7 million United paid for wheelchairs. United has entered into contracts for wheelchairs with DME providers, but the manner in which these providers are paid is very different from how typical in-network providers are paid.

United pays for wheelchairs according to terms and conditions of contracts it negotiates with each provider. The terms include fee schedules that specify reimbursement rates for many DME items. However, many wheelchairs are customized for a particular Plan member and many of the component parts are not included in the fee schedules. The contracts require United to pay for these non-fee schedule items based on a percentage of either the Manufacturer's Suggested Retail Price (MSRP) or the provider's usual and customary charges (customary charges).

United's contracts with Monroe Wheelchair and Home Medical Equipment call for payment based on MSRP. The MSRP is the list price or recommended retail price of a product and is used to standardize prices. In contrast, United's contracts with Wheelchair Professionals and Professional Rehab Services specify payments based on the providers' customary charges. However, United does not have any procedures to verify these customary charges and, as a result, officials simply rely on the provider to bill the appropriate amount.

The manner in which United has overseen this activity is an area of concern and we have reason to question whether United's oversight has resulted in the State incurring excessive and inflated costs for wheelchairs. We base this concern from our analysis of payments made by United for high cost wheelchairs. Specifically, we selected all 79 wheelchair claims made by the top four providers where the cost of the chair exceeded $30,000. In total, United paid $2,946,651 for these 79 wheelchairs. However we determined the providers' cost for these wheelchairs was only $1,326,699. As a result, these suppliers made a gross profit of $1,619,952; 122 percent of the cost of the wheelchairs they provided to Plan members. The average gross profit on each of the 79 wheelchairs was $20,505.

There are several issues that surfaced from our review of these claims. For example, we analyzed four commonly billed wheelchair items to determine whether they were included on the providers' fee schedules. Items included on fee schedules are subject to increased cost controls because fee schedule rates are negotiated, and thus less likely to be excessive than claims based on a percentage of charges. We found the fee schedules for Professional Rehab Services and Monroe Wheelchairs did not include any of the four commonly billed codes, while Wheelchair Professional's fee schedule (which is also used by Home Medical Equipment) included only two. As a result, United primarily paid for these common items based on percentage of claimed charges, which often exceed fee schedule amounts.

We also determined United overpaid the providers $100,993. Two providers were overpaid $65,933 for because United did not verify that the claims referenced the correct MSRP or customary charge. United overpaid another $35,060 for non-covered items because United did not review the component parts added to each wheelchair. United should ensure all providers submit detailed itemizations of their charges, including the MSRP.

United's contracts with providers also do not include benchmarks to limit reimbursement to reasonable levels. Overall, we concluded that United has not taken necessary steps to adequately protect the State against excessive and inflated charges. For example, United paid one provider $47,728 for a wheelchair that cost the supplier $15,166. This payment resulted is a gross profit margin of $32,562 for this one wheelchair alone, which is nearly 215 percent of the cost of the chair. The cost of providing health care coverage continues to rise at alarming rates and to allow providers to profit in this manner only accelerates the pace at which costs approach levels that are unsustainable.

We are not the first government body to review this issue. In August 2009, the Department of Health and Human Services' Office of Inspector General (HHS-OIG) released a report on power wheelchairs in the Medicare program which focused on the suppliers' acquisition costs and services. In this report, the HHS-OIG expressed concern over the extent of markups that Medicare was paying and reported that in 2007, the average reimbursement for a high end wheelchair in Medicare was $11,507, while the average cost to the supplier was $5,880, resulting in an average profit of about $5,600. The report questioned whether this profit was excessive and recommended the Center for Medicare & Medicaid Services establish a reasonable fee schedule for power wheelchairs. In contrast, United paid an average of $37,299 for the 79 high end

wheelchairs we reviewed, while this equipment cost suppliers an average of just $16,794, which resulted in average profits of over $20,500 per wheelchair.

In conclusion, we found suppliers make exorbitant profits on high end equipment supplied to Plan members. We do recognize that suppliers have other costs associated with fitting and delivering the chairs, as well as training patients to use them. Nevertheless, this issue warrants further scrutiny not only by United, but also by the Department - which is responsible for the administration of the Plan - and by the Council on Employee Health Insurance - which is responsible for continuing policy direction regarding insurance plans administered by the State.

Recommendations

1. Work with the Department and the Council on Employee Health Insurance to ensure the State has adequate cost controls in place over claims associated with durable medical equipment. This should include developing and implementing controls that better enable United to protect the State from excessive costs associated with high cost wheelchairs. At a minimum, United should:

- require providers to submit a detailed listing of all wheelchairs and related accessories,
- limit payments to a reasonable mark-up over the provider's cost, and
- expand the fee schedules to include commonly billed items.

2. Recover and remit to the State the $100,993 in specific overpayments identified in this audit.