



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Durable Medical Equipment, Prosthetics,
Orthotics, and Supplies (DMEPOS)
Department of Community Health (DCH)*

Report Number:
391-0717-12

Released:
January 2013

Medicaid is a program that helps certain individuals and families with low incomes and limited resources pay for some or all of their medical bills. It provides coverage of a wide variety of medical services for eligible individuals, including DMEPOS. DCH is responsible for establishing the rates used to reimburse providers for DMEPOS provided to Medicaid eligible individuals and for processing payment of DMEPOS claims through its electronic claims processing system.

Audit Objective:

To assess the effectiveness of DCH's efforts to ensure proper payment as defined by selected DCH policies for DMEPOS.

Audit Conclusion:

We concluded that DCH's efforts to ensure proper payment as defined by selected DCH policies for DMEPOS were moderately effective. We identified known improper payments of \$2,347,000 (approximately \$691,000 General Fund/general purpose) and potential improper payments of up to \$209,000 (approximately \$61,000 General Fund/general purpose). We noted five reportable conditions (Findings 1 through 5).

Reportable Conditions:

DCH did not ensure proper payment of DMEPOS for dually enrolled beneficiaries. As a result, we identified \$811,000 (approximately \$240,000 General Fund/general purpose) in improper payments to DMEPOS providers during

the audit period. Also, as a result, we identified potential improper payments of up to \$209,000 (approximately \$61,000 General Fund/general purpose) during the audit period ([Finding 1](#)).

DCH did not ensure that it prevented, detected, and recovered duplicate payments for DMEPOS. As a result, we identified \$641,000 (approximately \$189,000 General Fund/general purpose) in improper duplicate payments for DMEPOS claims during the audit period (\$99,000 of the \$641,000 and \$29,000 of the \$189,000 General Fund/general purpose are also included in Finding 4) ([Finding 2](#)).

DCH did not ensure proper payment for DMEPOS for beneficiaries residing in nursing facilities. As a result, we identified \$476,000 (approximately \$140,000 General Fund/general purpose) in improper payments to DMEPOS providers during the audit period ([Finding 3](#)).

DCH did not ensure proper payment for incontinence supplies. As a result, we identified \$357,000 (approximately \$104,000 General Fund/general purpose) in improper payments for incontinence supplies during the audit period (Finding 4).

DCH did not ensure proper payment for DMEPOS for beneficiaries enrolled in a Medicaid Health Plan (MHP). As a result, we identified \$161,000 (approximately \$47,000 General Fund/general purpose) in improper payments to DMEPOS providers during the audit period (Finding 5).

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Audit Objective:

To assess the effectiveness of DCH's process to establish rates consistent with applicable federal regulations, the Michigan Medicaid State Plan, and its policies for DMEPOS.

Audit Conclusion:

We concluded that DCH's process to establish rates consistent with applicable federal regulations, the Michigan Medicaid State Plan, and its policies for DMEPOS was moderately effective. We identified known improper payments of \$997,000 (approximately \$293,000 General Fund/general purpose) and potential improper payments of up to \$1,600,000 (approximately \$470,000 General Fund/general purpose). We noted three reportable conditions (Findings 6 through 8).

Reportable Conditions:

DCH did not ensure that it established Medicaid rates for DMEPOS consistent with its policy. As a result, DCH paid DMEPOS providers \$983,000 (approximately \$289,000 General Fund/general purpose) in excess of Medicare rates during the audit period (Finding 6).

DCH did not have written internal policies and procedures for establishing and periodically evaluating DMEPOS covered services and associated payment rates. As a result, DCH was unable to provide documentation supporting how the existing Medicaid DMEPOS payment rates were established and when DCH last updated or reviewed the payment rates (Finding 7).

DCH should consider establishing reduced payment rates for used durable medical equipment (DME). We estimate that DCH could have saved at least \$14,000 (approximately \$4,000 General Fund/general purpose) and at most \$1,600,000 (approximately \$470,000 General Fund/general purpose) during the audit period if it had developed used payment rates for DME items (Finding 8).

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Agency Response:

Our audit report contains 8 findings and 8 corresponding recommendations. DCH's preliminary response indicates that it agrees with all 8 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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