



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued April 19, 2016

Office of Medicaid (MassHealth)—Review of Claims
Submitted by Hudson Home Health Care, Inc.
For the period January 1, 2012 through December 31, 2014





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Office of the State Auditor
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Making government work better

April 19, 2016

Mr. William Mixon, President / Chief Executive Officer
National Seating & Mobility, Inc.
318 Seaboard Lane, Suite 202
Franklin, TN 37067

Dear Mr. Mixon:

I am pleased to provide this performance audit of Hudson Home Health Care, Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2012 through December 31, 2014. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to Hudson Home Health Care, Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Ryan Herrera, Director of Financial Operations, National Seating & Mobility, Inc.
Marylou Sudders, Secretary, Executive Office of Health and Human Services
Daniel Tsai, Assistant Secretary and Director of Medicaid
Joan Senatore, Chief Compliance Officer, Executive Office of Health and Human Services

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LIST OF ABBREVIATIONS

AAC	adjusted acquisition cost
CHIA	Center for Healthcare Information and Analysis
CMR	Code of Massachusetts Regulations
DME	durable medical equipment
MMIS	Medicaid Management Information System
MSRP	manufacturer's suggested retail price
OSA	Office of the State Auditor

EXECUTIVE SUMMARY

Under Chapter 118E of the Massachusetts General Laws, the Executive Office of Health and Human Services, through the Division of Medical Assistance, administers the state's Medicaid program, known as MassHealth. MassHealth provides access to healthcare services to approximately 1.9 million eligible low- and moderate-income children, families, seniors, and people with disabilities annually. In fiscal year 2015, MassHealth paid healthcare providers more than \$13.6 billion, of which approximately 50%¹ was funded by the Commonwealth. Medicaid expenditures represent approximately 38% of the Commonwealth's total annual budget.

The Office of the State Auditor has conducted an audit of claims for wheelchairs and wheelchair components submitted by Hudson Home Health Care, Inc.² to MassHealth for the period January 1, 2012 through December 31, 2014. The objective of our audit was to determine whether Hudson submitted claims and received payments for these items in accordance with certain established state regulations.

This audit was conducted as part of our ongoing independent statutory oversight of the state's Medicaid program. Several of our previously issued audit reports have disclosed significant weaknesses in MassHealth's claim-processing system, which resulted in hundreds of millions of dollars in unallowable and potentially fraudulent claim payments. As with any government program, public confidence is essential to the success and continued support of the state's Medicaid program.

Based on our audit, we have concluded that Hudson billed MassHealth and received payments of \$557,006 for wheelchairs and wheelchair components contrary to state regulations for the transactions reviewed.

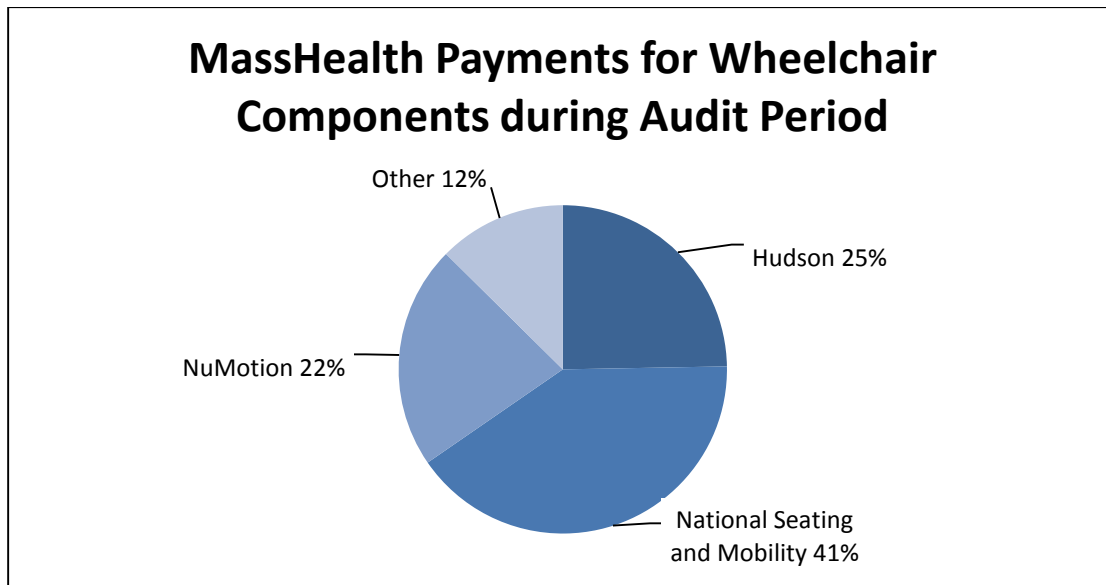
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1. During the federal government's fiscal year 2015, the Federal Medical Assistance Percentage for Massachusetts was 50%.
 2. During November 2014, Hudson was purchased by National Seating and Mobility, Inc. As a wholly owned subsidiary of National Seating and Mobility, Inc., Hudson continues to operate as a MassHealth provider of durable medical equipment, doing business as Hudson Seating and Mobility, Inc.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page <u>8</u>	Hudson improperly billed MassHealth, causing overpayments of at least \$474,486.
Recommendations Page <u>9</u>	<ol style="list-style-type: none">1. Hudson should submit claims for wheelchair components based on its lowest accepted prices.2. Hudson should develop, maintain, and make available to MassHealth a list of its lowest accepted prices for all wheelchair components.3. Hudson should collaborate with MassHealth to determine any potential amounts due the Commonwealth identified in this finding. Additionally, Hudson should work with MassHealth to determine whether additional overpayments resulted from similar improper billings for wheelchair components that were not tested.4. Hudson should periodically review the billing and payment regulations of MassHealth and the Center for Healthcare Information and Analysis and update its policies and procedures accordingly.
Finding 2 Page <u>14</u>	Hudson was overpaid approximately \$82,520 for wheelchair components that were individually priced by MassHealth.
Recommendations Page <u>16</u>	<ol style="list-style-type: none">1. Hudson should submit current receipted invoices to MassHealth when claiming payment for individually priced wheelchair components. These invoices should specify all discounts, rebates, and warranties.2. Hudson should collaborate with MassHealth to repay the Commonwealth the \$82,520 in overpayments identified in this finding. Additionally, Hudson should work with MassHealth to determine whether additional overpayments resulted from similar improper billings for wheelchair components that were not tested.

OVERVIEW OF AUDITED ENTITY

Hudson Home Health Care, Inc., a provider of durable medical equipment (DME), is located in Franklin, Massachusetts, and is a major supplier of seating and mobility equipment in the Northeast. Hudson has nine locations serving New England, New York, and New Jersey. At each location, Hudson employs assistive-technology professionals who work closely with its clients and their physicians, occupational therapists, and health-insurance companies to provide medically necessary equipment for the clients' medical needs. During our audit period, Hudson received approximately 25% of all MassHealth payments for wheelchairs and wheelchair components, as indicated in the chart below.



During the audit period, Hudson submitted 61,913 claims, totaling \$13,949,799, for DME provided to MassHealth members. Of this amount, \$11,949,133 represented claims for wheelchairs and wheelchair components paid for by MassHealth.

Rates of Payment

MassHealth pays providers for DME, including wheelchairs and wheelchair components, based on regulations and a rate schedule established by the Center for Healthcare Information and Analysis (CHIA).³

3. Until November 5, 2012, CHIA was known as the Division of Health Care Finance and Policy.

These regulations and rates are published in Section 22.00 of Title 114.3 of the Code of Massachusetts Regulations (CMR).

Generally, these regulations require MassHealth to pay providers the lower of the usual and customary rate the provider charges the general public or the rate listed on the CHIA rate schedule. In order to pay the lowest rate, MassHealth relies on providers to bill it at the lowest rates they accept from any other payer. For example, CHIA’s rate schedule allows \$839.57 for a lightweight wheelchair. However, if Hudson accepts a lower rate from another insurance carrier for this same item, it must bill this lower amount to MassHealth.

However, some wheelchair components are individually priced by MassHealth because predetermined prices for them are unavailable from CHIA. For these components, 114.3 CMR 22.00 requires providers to submit to MassHealth evidence of the price they paid to the manufacturer for the component, in the form of a current receipted invoice.⁴ The invoice lists all manufacturer discounts, discounts for timely payment, warranties, and rebates. MassHealth uses this invoice to determine the provider’s adjusted acquisition cost (AAC). Once the AAC is determined, under state regulations, MassHealth is allowed to include up to a 35% markup of the AAC, as well as an allowance for a timely-payment discount as long as it does not exceed 5%, when calculating the provider’s payment.

For example, the manufacturer’s suggested retail price (MSRP) of a leg rest might be \$100 and a provider might receive a 20% volume discount, a 40% dealer discount, and a 2% timely-payment discount. To calculate the provider’s AAC for this item, MassHealth would apply the volume and dealer discounts, but not the timely-payment discount. It would then apply a markup percentage (typically 35%) to the AAC. The resulting payment would be \$64.80, as shown below.

Adjustment Type	Amount Included in MassHealth’s Calculation
Wheelchair Component MSRP	\$100.00
Volume Discount 20%	(20.00)
Subtotal	<u>\$ 80.00</u>
Dealer Discount 40%	(32.00)
AAC	<u>\$ 48.00</u>
Timely-Payment Discount 2%, or \$0.96	–
35% Markup on AAC	<u>16.80</u>
MassHealth Payment to Provider	<u>\$ 64.80</u>

4. A current receipted invoice differs from a current invoice in that the receipted invoice shows proof of payment to the manufacturer.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of Hudson Home Health Care, Inc. for the period January 1, 2012 through December 31, 2014. For this audit, we concentrated on claims that Hudson submitted to MassHealth for wheelchairs and wheelchair components.

We conducted this performance audit in accordance with 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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did Hudson bill MassHealth the appropriate amounts (i.e., the lowest usual and customary prices) for wheelchairs and wheelchair components in accordance with state regulations?	No; see Finding <u>1</u>
2. Did Hudson submit the required current receipted invoices to MassHealth for wheelchair components that were not listed in the Center for Healthcare Information and Analysis (CHIA) rate schedule?	No; see Finding <u>2</u>

Auditee Selection

On September 16, 2015, OSA issued *Office of Medicaid (MassHealth)—Review of Controls over Mobility-Assistive Equipment* (No. 2013-1374-3M2). This audit report detailed deficiencies in MassHealth’s processing of claims for wheelchairs and wheelchair components and also disclosed that some wheelchair providers did not bill for wheelchair components in accordance with state regulations. However, we could not quantify the effects of certain billing irregularities without performing provider-specific audits. For this audit, we selected Hudson, one of MassHealth’s major providers of wheelchairs and wheelchair components.

Methodology

To achieve our audit objectives, we reviewed applicable state and federal laws, rules, and regulations; MassHealth Provider Bulletins and Transmittal Letters; CHIA rules and provisions governing payment rates for durable medical equipment (DME); and the CHIA allowable fees and rate schedule for DME. We interviewed officials at MassHealth, Hudson, and five wheelchair and wheelchair-component suppliers: Motion Concepts, BioDynamics, Invacare, Permobil, and Quantum (Pride Mobility).

We queried all the payment information for wheelchairs and wheelchair components that MassHealth processed for Hudson in the Commonwealth's Medicaid Management Information System (MMIS) and MassHealth Data Warehouse for the audit period. We assessed the reliability of the MassHealth computer-processed data in MMIS and the MassHealth Data Warehouse. As part of this assessment, we reviewed existing information, tested selected information system controls, and interviewed knowledgeable agency officials about the data. Additionally, we performed validity and integrity tests on all claim data, including (1) testing for missing data elements; (2) scanning for duplicate records; (3) testing for values outside a designated range; (4) looking for dates outside specific time periods; and (5) tracing a sample of claims to source documents. Based on the procedures performed, we determined that the data obtained were sufficiently reliable for the purposes of this report.

We performed data analytics using the claims we queried from MMIS to identify areas of potential fraud, waste, and abuse. Additionally, we performed substantive audit testing on these claims by selecting and testing a judgmental sample⁵ of 15 wheelchair-component procedure codes representing 5,809 of 61,913 claims paid by MassHealth to Hudson during our audit period. The purpose of this test was to determine whether Hudson billed MassHealth in accordance with state laws and regulations that require it to bill the lowest usual and customary amount it charges or accepts from any other payer. We obtained Hudson's lowest usual and customary rates for all 15 components and calculated overpayments. We performed certain tests of reasonableness on these rates.

Additionally, we selected a random statistical sample of claims for wheelchair components that both (1) were paid at amounts of \$100 or greater and (2) did not have specific prices in the CHIA rate schedule.

5. We selected these 15 components' procedure codes because they represented some of the largest unit quantities and amounts paid by MassHealth for components for the audit period. They are the same 15 procedure codes that we examined in our report *Office of Medicaid (MassHealth)—Review of Controls over Mobility-Assistive Equipment* (#2013-1374-3M2).

Our sample test consisted of 76⁶ of the 3,874 total claims in this defined population.⁷ We obtained all supporting supplier or manufacturer invoices and recalculated what the payments should have been according to MassHealth regulations. We compared our recalculated amounts to those paid by MassHealth. We summarized and categorized all differences and exceptions and, whenever possible, projected our questioned costs to the entire population of claims.

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6. Each of these 76 claims represented an average of two to three invoices, each of which required the review of a separate invoice and a separate recalculation of the amount that should have been paid.
 7. The total number of claims paid to Hudson that did not have defined CHIA rates was 7,355 (3,481 of these claims totaled less than \$100 each).

DETAILED AUDIT FINDINGS WITH AUDITEE’S RESPONSE

1. Hudson improperly billed MassHealth, causing overpayments of at least \$474,486.

When Hudson submitted claims for wheelchair components, it did not bill MassHealth the lowest usual and customary price in accordance with state regulations. Specifically, in our sample of 15 wheelchair components, Hudson billed MassHealth at rates higher than those it charged, or accepted from, other payers (e.g., insurance companies) for the same items. Because Hudson did not properly bill MassHealth, it was overpaid by at least⁸ \$474,486 during the audit period.

Overpayments for 15 Wheelchair Components

Procedure Code	Component Description*	Amount Paid	Potential Payment Based on Hudson’s Lowest Usual and Customary Rate	MassHealth Potential Savings
E0955	WHEELCHAIR ACCESSORY, HEADREST, CUSHION	\$ 110,479	\$ 92,905	\$ 17,574
E1002	WHEELCHAIR ACCESSORY, POWER SEATING SYSTEM	492,121	434,504	57,617
E1007	WHEELCHAIR ACCESSORY, POWER SEATING SYSTEM	498,783	447,817	50,966
E1161	MANUAL ADULT SIZE WHEELCHAIR, INCLUDES	584,890	503,506	81,384
E2203	MANUAL WHEELCHAIR ACCESSORY, NONSTANDARD	61,366	39,977	21,389
E2311	POWER WHEELCHAIR ACCESSORY, ELECTRONIC	225,359	199,013	26,346
E2361	POWER WHEELCHAIR ACCESSORY, 22NF SEALED BATTERY	82,894	74,397	8,497
E2370	POWER WHEELCHAIR COMPONENT, MOTOR AND	97,398	86,064	11,334
E2377	PWR WHLCHR ACCE, XPAND, INC ELEC/HRDWRE	52,795	47,389	5,406
E2607	SKIN PROTECTION AND POSITIONING WHEELCHAIR	105,197	85,795	19,402
E2620	POSITIONING WHEELCHAIR BACK CUSHION, PL	138,065	114,614	23,451
E2622 NU	ADJ SKIN PRO W/C CUS WD<22IN	144,957	110,389	34,568

8. Our analysis includes only 15 of the 219 wheelchair components that Hudson billed MassHealth. The amount in overpayments that we can confirm from this analysis is \$474,486, but there may have been more.

Procedure Code	Component Description*	Amount Paid	Potential Payment Based on Hudson’s Lowest Usual and Customary Rate	MassHealth Potential Savings
K0800	POWER OPERATED VEHICLE, GROUP 1 STANDARD	70,198	62,053	8,145
K0856	POWER WHEELCHAIR, GROUP 3 STANDARD, SINGLE	538,585	470,475	68,110
K0861	POWER WHEELCHAIR, GROUP 3 STANDARD, MULTI	322,108	281,811	40,297
Total		<u>\$3,525,195</u>	<u>\$3,050,709</u>	<u>\$ 474,486</u>

* These descriptions of wheelchairs and components are quoted from the Medicaid Management Information System. For a full description of each component, refer to the DME and Oxygen Payment and Coverage Guideline Tool (accessible [here](#)) and Section 22 of Title 114.3 of the Code of Massachusetts Regulations (CMR).

Authoritative Guidance

Massachusetts’s Center for Healthcare Information and Analysis (CHIA) has promulgated regulations governing payments for wheelchair components under 114.3 CMR 22.03(2):

*Payment to an eligible [durable medical equipment, or DME] provider for the purchase of customized seating, positioning, mobility systems, customized movable and fixed patient lift systems, and all related accessories shall be at the **lower of** the eligible provider’s usual and customary charge to the general public or the rates specified in 114.3 CMR 22.06 [the CHIA rate schedule]. [emphasis added]*

In addition, 114.3 CMR 22.02 defines “usual and customary charge” as follows:

The lowest price that an eligible provider charges or accepts from any payer for the same equipment or item, including but not limited to the shelf price, sale price or advertised price.

Reasons for Improper Payments

Hudson officials stated that they were not aware of state regulations requiring claims to be based on the lowest price that Hudson charges or accepts from any payer for the same equipment.

MassHealth officials stated that MassHealth does not know DME providers’ lowest accepted prices. As a result, MassHealth pays for wheelchair components based on amounts listed on the CHIA rate schedule, which are typically higher.

Poor communication between Hudson and MassHealth has contributed to MassHealth incurring hundreds of thousands of dollars in unnecessary costs.

Recommendations

1. Hudson should submit claims for wheelchair components based on its lowest accepted prices.

2. Hudson should develop, maintain, and make available to MassHealth a list of its lowest accepted prices for all wheelchair components.
3. Hudson should collaborate with MassHealth to determine any potential amounts due to the Commonwealth identified in this finding. Additionally, Hudson should work with MassHealth to determine whether additional overpayments resulted from similar improper billings for wheelchair components that were not tested.
4. Hudson should periodically review MassHealth's and CHIA's billing and payment regulations and update its policies and procedures accordingly.

MassHealth's Response

MassHealth will require claims for wheelchair components that do not have a rate on file to be submitted with an invoice showing the provider's lowest accepted prices. . . .

MassHealth will request yearly updated pricing information from the provider, including the provider's lowest accepted prices, to ensure that MassHealth is reimbursing Hudson at its lowest accepted prices. . . .

MassHealth agrees with the recommendation that Hudson collaborate with MassHealth to repay the overpayment of approximately \$474,486 resulting from the overpayments identified through this audit and will work with Hudson to determine whether additional overpayments resulted from similar improper billings. . . .

MassHealth will advise Hudson . . . to review MassHealth's and CHIA's billing and payment regulations and to update their policies and procedures. MassHealth will also send out a transmittal letter reminding all DME providers to review MassHealth's payment rules.

Hudson's Response

Hudson Home Health Care, Inc. (Hudson) has properly billed and received payment for Durable Medical Equipment (DME) in accordance with MassHealth regulations.

MassHealth has consistently adjudicated Hudson claims in accordance with 114.3 CMR 22.03(1). 114.3 CMR 22.03(1) provides that:

22.03: General Rate Provisions

1. Purchase or Rental of Durable Medical Equipment, Medical and Surgical Supplies. Payment to an eligible provider for the purchase of the above services will be the lower of:
 - (a) The eligible provider's usual and customary charge to the general public; or
 - (b) Such schedule of allowable fees set forth in 114.3 CMR 22.06.

The allowable fees have been set in accordance with 114.3 CMR 22.03(16), which states as follows:

- (16) General Rate Provisions for Pricing of New Codes. As described in 114.3 CMR 22.01(5), the Division may publish new procedure codes in the form of an Informational Bulletin and set fees as follows:

(a) When Medicare fees are available, set fees at

1. 100% of Medicare for

a. specialized wheeled mobility equipment and accessories

b. First six months rental for ventilators

2. 90% of Medicare for oxygen equipment and contents

3. 85% of Medicare for all other items

(b) When Medicare fees are not available, apply individual consideration at adjusted acquisition cost plus the standard markup as defined in 114.3 CMR 22.02. *(Emphasis added).*

Hudson has charged and been paid in accordance with the allowable fees set forth on 114.3 CMR 22.06.

Nevertheless, the OSA relies upon the definition of "usual and customary charge" as its basis for claiming the Hudson has improperly billed and received payment for DME. 114 CMR 22.02 defines usual and customary charge to be:

Usual and Customary Charge. The lowest price that an eligible provider charges or accepts from any payer for the same equipment or item, including but not limited to the shelf price, sale price, or advertised price.

Based upon the definition of usual and customary charge, the OSA believes that a DME supplier is obligated to charge MassHealth the lower of: (a) the lowest price charged or accepted from any payer for the same equipment or item; or (b) the schedule of allowable fees set forth in 114.03 CMR 22.06.

*Hudson respectively disagrees with the OSA's reading of 114 CMR 22.03 because it fails to take into account the clause "to the general public." 114 CMR 22.03 does not state that Hudson must charge MassHealth the lower of (a) Hudson's usual and customary charge; or (b) the allowable fee under the fee schedule. Rather, 114 CMR 22.03 states that Hudson must charge the lower of (a) Hudson's usual and customary charge **to the general public**; or (b) the allowable fee under the fee schedule.*

In other words, in order for a DME Supplier to be required to charge MassHealth the lowest price charged or accepted from a payer, the lowest price must be available and charged to the general public. Otherwise, 114.3 CMR 22.03(1)(a) would simply state "The eligible provider's usual and customary charge."

The inclusion of "to the general public" in 114 CMR 22.03(1) is significant because it recognizes that a DME Supplier may negotiate prices with a payer that are lower than those that are offered to the general public. In fact, Hudson negotiates its rates with payers on a regional and even national basis. When negotiating these rates, consideration is given to a regional or national payer's purchase volume in its entire geographic footprint—not just purchases within Massachusetts.

Based upon these considerations, the lowest price Hudson charges or accepts from any payer is not the same as the lowest price that it charges to or accepts from the general public. The prices negotiated with payers are only available to the enrollees of the plans offered by such payers, and are not available to the general public. In fact, Hudson charges the general public fees higher than

the fees on the schedule of allowable fees set forth in 114.3 CMR 22.06. Consequently, Hudson's usual and customary charge to the general public is greater than the allowable fees set forth in 114.3 CMR 22.06 and Hudson appropriately billed and received payment in accordance with 114.3 CMR 22.03(1).

Moreover, the OSA's application of usual and customary charges pursuant to 114.3 CMR 22.02 is not practical. In the event of a crossover claim; a MassHealth claim would not be submitted by Hudson. In the case of a crossover; Hudson tenders a claim to Medicare per Medicare guidelines. Medicare then transmits the processed claim to MassHealth directly. As such, the usual and customary charges provided to Medicare cross over automatically to MassHealth. Therefore, Hudson has no control over this process and could not comply with the OSA's recommendation.

A change in reimbursement methodology at this point would have a chilling effect on Hudson and presumably other providers that provide services to the fragile population that we pride ourselves in serving. As a stakeholder, Hudson welcomes the opportunity to work in tandem with MassHealth with respect to any amendment of its regulations of how claims for Durable Medical Equipment are billed and reimbursed.

Auditor's Reply

In its response, Hudson states it has properly billed and received payment for DME in accordance with MassHealth regulations and that MassHealth has consistently adjudicated Hudson's claims in accordance with 114.3 CMR 22.03(1). This is not accurate. As detailed in the audit report, MassHealth regulations require that DME providers, such as Hudson, bill the Commonwealth based on the lower of their lowest usual and customary charge to the general public or the amount published on the CHIA rate schedule. Our audit showed that Hudson did not comply with this requirement when submitting DME claims to MassHealth. Specifically, Hudson did not consider rates it had negotiated with other insurance companies, which were lower than the rates on the CHIA rate schedule. In addition, when the Office of the State Auditor (OSA) gave MassHealth a draft copy of this audit report, MassHealth concurred with our findings. As described in its response above, MassHealth plans to take corrective action to ensure that all DME providers consider their lowest usual and customary charge to the general public when billing for equipment supplied to MassHealth members.

In its response, Hudson describes CHIA regulation 114.3 CMR 22.03(16), which governs the setting of rates for all DME. This regulation is not relevant to our finding. We did not question the rates published in CHIA's rate schedule, but rather that Hudson did not compare this rate schedule to its lowest usual and customary charge to the general public when billing MassHealth for equipment.

Hudson also contends that OSA fails to take into account the phrase "to the general public" when determining whether Hudson complied with 114.3 CMR 22.03(1). Hudson makes a distinction between

the rates charged “to the general public” and those that it may negotiate with insurance companies. Hudson indicates that the purpose of including the phrase “to the general public” in the regulation was to make that same distinction and, specifically, to allow providers to charge the Commonwealth the higher rates they may charge to “the general public,” rather than the lower rates they negotiated with insurers and their enrollees.

We disagree that the intent of MassHealth's regulation is to exclude enrollees of insurance providers from its definition of “the general public.” Since the passage of Chapter 58 of the Acts of 2006 (the Massachusetts healthcare reform law commonly referred to as Romneycare), approximately 97% of the population of Massachusetts has consisted of people who are insured. In a September 2013 letter to the Centers for Medicare and Medicaid Services, the then-Secretary of Massachusetts's Executive Office of Health and Human Services, John Polanowicz, stated that through this legislation, “the state set itself on a path to providing access to affordable health care for all residents of the Commonwealth.” It is difficult to support an assertion that the phrase “the general public” is intended to denote the remaining 3% of residents who have no insurance and thus no access to the lower rates available to insurers and their enrollees.

It is also difficult to support an assertion that by including the phrase “to the general public” in the regulation, the Commonwealth intended to ensure that it would pay providers of healthcare supplies or services at higher rates than insurers pay for the same items. We discussed this matter with MassHealth during the audit and upon receiving Hudson's response to our audit findings. In both instances, MassHealth confirmed our understanding that the term “general public” in 114.3 CMR 22.03(1)(a) and 22.03(2) includes individuals who do have health insurance.

MassHealth, as an insurance provider, has no reason to require itself to pay the same price as uninsured individuals rather than paying the same price as other insurance providers, which are its peers and closest equivalents. This would not be in the best interest of the Commonwealth or conducive to efficiency, cost-effectiveness, and sustainability in the MassHealth program. It would also not be conducive to healthcare cost containment, a commitment the Commonwealth reaffirmed through passage of its most recent healthcare reform legislation, Chapter 224 of the Acts of 2012.

We do not agree with Hudson that any changes that MassHealth may make to its reimbursement methodology would have a “chilling effect” on Hudson and/or other providers of DME. Rather, any

measures MassHealth takes on this matter will be to better ensure that it reimburses providers by properly using the established methodology that CHIA and the federal government have determined to provide a reasonable rate of reimbursement to providers of DME while also protecting the interests of taxpayers.

Finally, in its response, Hudson questions the practicality of applying 114.3 CMR 22.03(1) to claims involving both Medicare and Medicaid payments (crossover claims). However, Hudson's concern is unfounded, since 114.3 CMR 22.03(1) applies to claims paid solely by MassHealth. For Medicare crossover claims, MassHealth applies a different set of regulations (130 CMR 450.318[C]([2])) when determining final payment.

2. Hudson was overpaid approximately \$82,520 for wheelchair components that were individually priced by MassHealth.

During the audit period, Hudson received overpayments of approximately \$82,520 for individually priced wheelchair components. In some cases, Hudson received payments for incorrectly applied timely-payment discounts. In other cases, Hudson did not disclose to MassHealth all warranties and trade, volume, dealer, and manufacturer discounts. Finally, in other cases, clerical and mathematical errors resulted in overpayments.

During our audit fieldwork, we tested a random statistical sample of 76 out of 3,874 paid claims for individually priced wheelchair components and projected the results to the population. To determine how often each type of problem occurred within all 3,874 claims from the audit period, we calculated how often it happened within our sample of 76. For example, the problem of incorrectly applied timely-payment discounts occurred with 53, or 69.74%, of the 76 claims. We applied, or extrapolated, this 69.74% error rate to the total population of claims paid during the audit period (3,874) to reach a projected total of 2,702 claims with errors out of the whole population. We multiplied this by the average overpayment per claim (\$27.15) for a projected overpayment of \$73,359. Our other projected overpayments are detailed in the table below.

Overpayments for Individually Priced Components

Type of Error	Percent of Claims with Errors	Number of Test Errors	Projected Number of Errors	Average Overpayment per Claim	Overpayment
Incorrectly Applied Timely-Payment Discounts	69.74%	53	2,702	\$27.15	\$73,359
Undisclosed Discounts (Dealer, Trade, Volume, Etc.)	7.89%	6	306	\$26.55	8,124
Clerical and Mathematical Errors	6.58%	5	255	\$2.44	622
Total Extrapolated Overpayments					<u>\$82,105</u>
Non-Extrapolated Overpayment—Warrantied Items*	3.95%	3			<u>415</u>
Total Overpayments					<u>\$82,520</u>

* Errors resulting from warrantied items were not extrapolated, since warranties are unique and vary by wheelchair component and by manufacturer.

Authoritative Guidance

According to 114.3 CMR 22.02, items for which there is no specified rate are given “individual consideration” and are subject to the following procedure:

The purchasing governmental unit (MassHealth) analyzes the eligible provider’s report of services submitted before making a determination. Providers must keep adequate records to substantiate their [individual consideration] claims and must provide these documents, including a copy of the current invoice, to the purchasing agency. Except where otherwise stipulated in 114.3 CMR 22.03, payment to an eligible provider for individual consideration will be the lower of:

- (a) the eligible provider’s usual and customary charge to the general public . . .*
- (d) for purchases of new wheeled mobility system equipment, patient lift systems, and related accessories, the adjusted acquisition cost to the eligible provider plus the standard markup of 35 percent, as defined in 114.3 CMR 22.02.*

The same regulation requires providers to submit a “current receipted invoice” to MassHealth for each individually priced component. A current receipted invoice reflects the amount that the provider actually paid to the manufacturer for the component, so it reflects any discounts, rebates, and warranties that may have been applied and may have resulted in a lower price than the one originally quoted.

Reasons for Improper Payments

With claims for items requiring individual consideration, Hudson’s policy is to submit manufacturer-quoted prices, rather than current receipted invoices, to MassHealth. Sometimes these price quotations

include all the discounts Hudson will receive, but frequently they do not include all warranties and trade, volume, dealer, manufacturer, and timely-payment discounts. Without this information, MassHealth cannot determine the correct adjusted acquisition cost (AAC) and calculate the correct payment amount.

Even when the quotes do include discounts, they do not always clearly distinguish between those that should be included in the AAC (such as manufacturer discounts) and those that should not be included (timely-payment discounts up to 5%). As a result, MassHealth sometimes incorrectly applied timely-payment discounts to the AAC.

Regarding overpayments due to clerical and mathematical errors, these errors can happen with payment for individually priced components because the data entry involved requires a person to (1) manually review and interpret dissimilar manufacturer invoices, (2) look up and apply the relevant markup percentage for the component under review, and (3) type the amount to be paid. Any of the above factors could have caused these errors.

Recommendations

1. Hudson should submit current receipted invoices to MassHealth when claiming payment for individually priced wheelchair components. These invoices should clearly specify all discounts, rebates, and warranties.
2. Hudson should collaborate with MassHealth to repay the Commonwealth the \$82,520 in overpayments identified in this finding. Additionally, Hudson should work with MassHealth to determine whether additional overpayments resulted from similar improper billings for wheelchair components that were not tested.

MassHealth's Response

MassHealth will issue a transmittal letter clarifying the format and content, including discounts, rebates, and warranties, required for invoices submitted with claims for individually priced wheelchair components. . . .

MassHealth agrees with the recommendation that Hudson collaborate with MassHealth to repay the overpayment of approximately \$82,520 resulting from the overpayments identified through this audit and will work with Hudson to determine whether additional overpayments resulted from similar improper billings.

Hudson's Response

Hudson has not been provided any specific information on any of the 53 individual findings in the population of 76 total claims reviewed. In order to adequately respond to the OSA's findings Hudson requests detail on the 53 specific findings. Many discounts offered by our suppliers are tied to a timely payment and should not be assumed to be the adjusted acquisition cost (AAC); rather

Hudson would welcome the opportunity to reconcile payments to our suppliers with the audit findings to determine AAC.

Auditor's Reply

During the audit, Hudson gave the audit team approximately 184 final invoices for the randomly selected 76 claims.⁹ On each invoice, Hudson provided a handwritten calculation of the payment due from MassHealth. We used these calculations to develop this audit finding. Thus, contrary to its response, Hudson was aware of the overpayments it received from 53 of these claims. Moreover, we discussed this finding with Hudson's staff and officers at the end of our audit fieldwork. At that time, Hudson did not request any additional information regarding this finding. However, we will provide any additional information that Hudson needs in relation to these questionable payments so that it can work with MassHealth to resolve these questioned costs.

Additionally, in its response, Hudson asserts that many of the questioned discounts were related to timely-payment discounts offered by its suppliers that should not be considered questionable. This is not an accurate assessment of these discounts. The questioned timely-payment discounts were labeled as "secondary" discounts. Many of these secondary discounts were primarily between 30% and 60%. These are not typical amounts for timely-payment discounts, which are typically capped at 1% to 3% and are effective if an invoice is paid within 10 days. Moreover, OSA made inquiries of five¹⁰ of Hudson's suppliers to discuss these discounts. Each of the five stated that the questioned secondary discounts were not timely-payment discounts, but rather volume or dealer discounts that were based on contractual negotiations or on Hudson's historical purchasing volume. According to CHIA's regulations, 100% of these types of volume and dealer discounts must be passed on in good faith to the Commonwealth.

9. Our audit sample consisted of 76 claims. However, many of the claims included more than one invoice.

10. The five suppliers that the OSA interviewed were Bio Dynamics, Permobil, Motion Concepts, Quantum (Pride Mobility), and Invacare.