Report No. DODIG-2019-112

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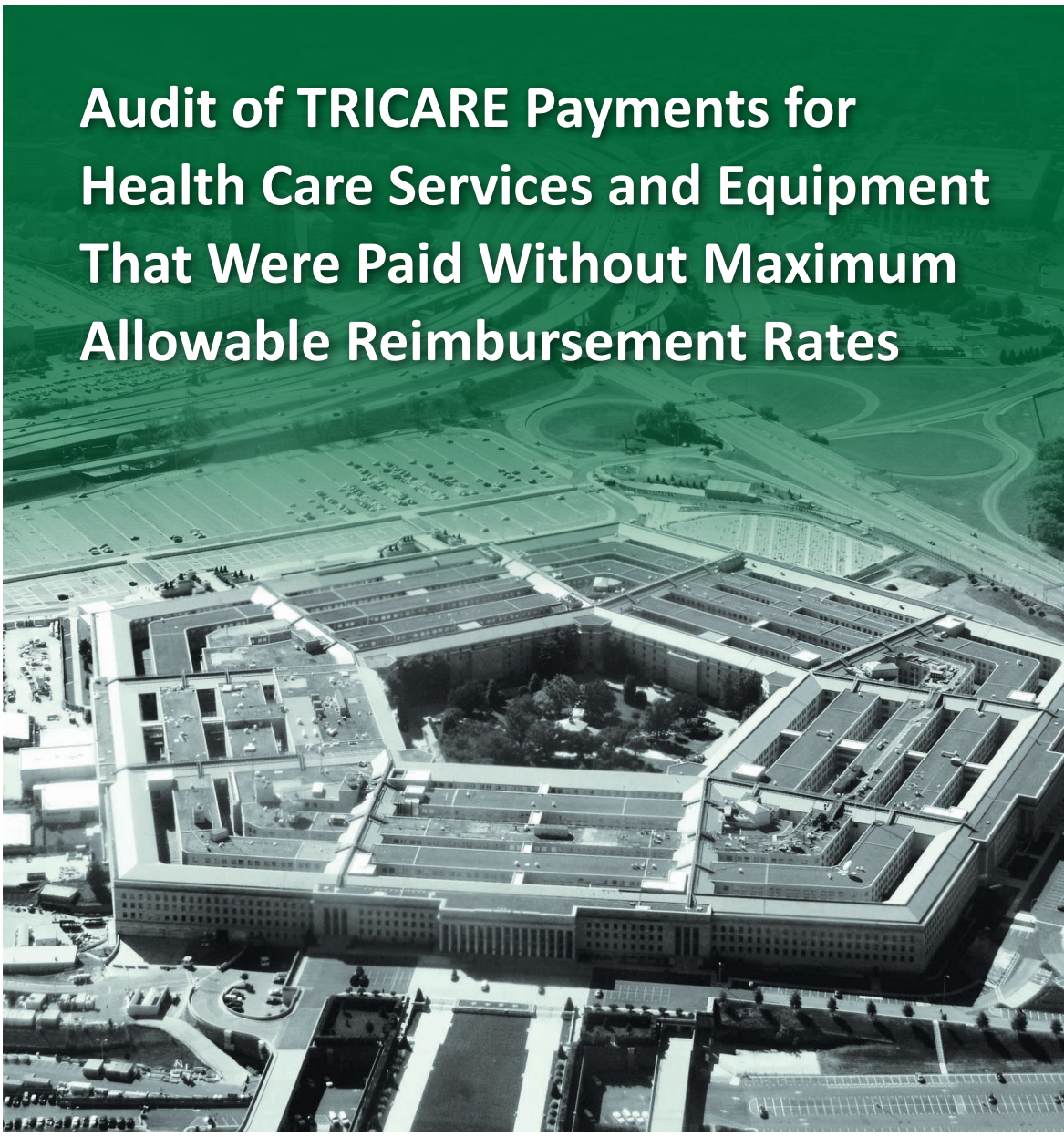
INSPECTOR GENERAL

U.S. Department of Defense

AUGUST 20, 2019

Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates



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Results in Brief

Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates

August 20, 2019

Objective

We determined whether the Defense Health Agency (DHA) paid higher prices than necessary for TRICARE health care services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates. A TRICARE maximum allowable reimbursement rate is the payment ceiling for reimbursement to providers.

We focused on claims for which DHA paid the amount the provider billed (paid-as-billed) for vaccines and contraceptive systems, such as human papillomavirus (HPV) vaccines and intrauterine devices (IUD); compression devices; oral appliances for the treatment of obstructive sleep apnea; charges for the installation of medical equipment; and costs associated with obtaining stem cells that were provided to beneficiaries in the TRICARE North, South, and West Regions in 2017. We selected those services for review because of their high claim costs.

Background

DHA, an agency under the direction of the Assistant Secretary of Defense (Health Affairs), manages the TRICARE program. TRICARE is the DoD's managed health care program for active duty service members, retirees, and eligible family members, both in the United States and overseas. Before January 1, 2018, the TRICARE program was divided into three health care service regions in the United States—North, South, and West (referred to in our report as the three TRICARE regions). DHA awarded contracts to three contractors to manage health care support and claims processing for the three TRICARE regions.

Background (cont'd)

DHA reimburses providers for medical services and equipment using TRICARE maximum allowable reimbursement rates. When TRICARE maximum allowable reimbursement rates do not exist, DHA reimburses providers for health care services and equipment based on the amount billed (paid-as-billed). DHA also pays as billed when the amount billed is less than the existing TRICARE maximum allowable reimbursement rates.

To determine whether DHA paid more than necessary for vaccines, contraceptive systems, durable medical equipment, and stem cell acquisition, we compared the amounts DHA paid to vaccine manufacturer pricing, reimbursement rates established by Medicare and state Medicaid programs, retail prices, and Medicare reimbursement methodologies (referred to collectively throughout this report as other pricing benchmarks).

Findings

We determined that DHA regularly paid more than other pricing benchmarks for services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates. Specifically, DHA paid more than other pricing benchmarks for vaccines, contraceptive systems, compression devices, oral appliances, costs associated with the installation of medical equipment, and stem cell acquisition provided to TRICARE beneficiaries in the three TRICARE regions in 2017. For example, DHA paid more than other pricing benchmarks for 70,248 of 107,953 vaccines (65 percent), and 1,341 of 5,450 contraceptive systems (25 percent).

Results in Brief

Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates

Findings (cont'd)

This occurred because DHA did not:

- use existing TRICARE maximum allowable reimbursement rates or other industry pricing benchmarks to pay TRICARE claims for vaccines and contraceptive systems;
- identify services and equipment that were paid at prices that exceeded other pricing benchmarks;
- define in TRICARE guidance what would constitute an excessive payment for TRICARE services and equipment, and provide instructions to its TRICARE contractors to identify and limit these charges; or
- consistently revise TRICARE reimbursement methodology to align with Medicare reimbursement methodologies when paying for TRICARE services and equipment.

As a result, of the $18.1 million reimbursement that we reviewed, DHA paid $3.9 million more than other pricing benchmarks for vaccines and contraceptive systems provided to TRICARE beneficiaries in the three TRICARE regions in 2017. If DHA continues its current paid-as-billed practice, and prices and volume stay the same, we calculated that it will waste an additional $19.5 million for health care services and equipment over the next 5 years.

We also identified examples of DHA paying more than other pricing benchmarks for durable medical equipment, and costs associated with obtaining stem cells. While we were unable to quantify the total magnitude, the examples showed that DHA paid excessive prices and continues to waste funds on other services and equipment that are paid-as-billed.

Finally, DHA policy requires beneficiaries in certain TRICARE categories to pay cost shares for equipment. Therefore, TRICARE beneficiaries will continue to pay higher out-of-pocket costs if DHA does not establish or use existing TRICARE maximum allowable reimbursement rates.

Recommendations

We recommend that the DHA Director:

- identify the reasons why TRICARE region contractors did not use existing TRICARE maximum allowable reimbursement rates, take immediate actions to confirm that TRICARE claims for vaccines and contraceptive systems are paid using the TRICARE maximum allowable reimbursement rates, and recoup overpayments;
- determine whether TRICARE region contractors applied TRICARE maximum allowable reimbursement rates to health care services, other than just vaccines and contraceptive systems;
- determine whether DHA should adopt vaccine manufacturer rates as reported by the CDC when reimbursing TRICARE claims for vaccines, and if adopted, regularly update rates to stay current with the vaccine manufacturer rates;
- conduct annual reviews to identify health care services, supplies, and equipment for which TRICARE paid higher prices, and establish and implement new TRICARE maximum allowable reimbursement rates accordingly;
- revise TRICARE policy to incorporate wording regarding reasonable cost and being a prudent buyer similar to the related clauses in 42 Code of Federal Regulations (CFR) 405.502 and Centers for Medicare and Medicaid Services Publication 15-1, "Provider Reimbursement Manual";

Results in Brief

Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates

Recommendations (cont'd)

- revise TRICARE reimbursement methodologies to align with the Medicare program, and establish an annual process to identify recent changes to Medicare reimbursement methodologies; and
- seek voluntary refunds from TRICARE providers where DHA paid more than other pricing benchmarks identified in this report.

Management Comments and Our Response

The DHA Director agreed with all but one of our recommendations. We consider five of the seven recommendations resolved because the response and actions described by the Director met the intent of our recommendations. There are two recommendations that we consider unresolved because management disagreed or did not fully address the intent of the recommendation.

The Director disagreed with the recommendation to seek voluntary refunds from TRICARE providers to whom DHA paid more than other pricing benchmarks identified in this report, and stated that DHA would only recoup on payments that were erroneous. The Director stated that providers would not agree to voluntary refunds without a legal basis and that voluntary refunds are not realistic or enforceable if payments were paid according to the contract. While we agree with the Director that the DHA may not be able to legally force the providers to refund the money, some providers billed as much as seven times the amount that other providers billed for the same health care equipment. As a result of a previous DoD OIG audit report with a similar recommendation, the DoD recovered $16 million from a voluntary refund by a contractor. We believe this is a similar situation, and that DHA should pursue corrective actions, including but not limited to seeking voluntary refunds of excessive payments from these providers. Therefore, we request that the Director reconsider DHA's position and seek voluntary refunds.

In addition, while the Director agreed with the recommendation to conduct annual reviews to identify health care services, supplies, and equipment for which TRICARE paid higher prices, and establish and implement new TRICARE maximum allowable reimbursement rates accordingly, the Director's response did not address the specifics of the recommendation. The Director stated that DHA currently conducts annual reviews of health care services that do not have maximum rates to determine whether DHA should establish rates, in accordance with Chapter 5 of the TRICARE Reimbursement Manual. However, the TRICARE Reimbursement Manual does not require DHA to conduct its own review; therefore, the Director's response did not address the specifics of the recommendation. We request that the Director provide comments to the final report about whether DHA will perform its own reviews on claims that were paid-as-billed.

The DHA Director did not respond to the potential monetary benefits in the report. We request that the DHA Director provide comments on potential monetary benefits.

Please see the Recommendations Table on the next page for the status of the recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, DHA	1.d, 1.g	1.a, 1.b, 1.c, 1.e, 1.f	None

Please provide Management Comments by September 20, 2019.

Note: The following categories are used to describe agency management's comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

August 20, 2019

MEMORANDUM FOR DIRECTOR, DEFENSE HEALTH AGENCY

SUBJECT: Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates (Report No. DODIG-2019-112)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The DHA Director agreed with all but one of our recommendations. However, there are two recommendations that we consider unresolved because management disagreed or did not fully address the intent of the recommendation. Therefore, the five recommendations that were addressed are considered resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, the recommendations may be closed when we receive adequate documentation showing that all agreed-upon actions to implement the recommendations have been completed. Therefore, please provide us your response concerning specific actions in process or completed on the recommendations by the completion dates you provided for these actions in your comments to the draft report. Your response should be sent to followup@dodig.mil.

The remaining two recommendations are considered unresolved because the Director did not agree with one recommendation and did not discuss actions that meet the intent of another recommendation presented in the report. Therefore, we will track these recommendations until an agreement is reached on the actions to be taken to address the recommendations, and adequate documentation has been submitted showing that the agreed-upon action has been completed. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, please provide us your response by September 20, 2019, concerning specific actions in process or alternative corrective actions proposed on the recommendation. Your response should be sent to audyorktown@dodig.mil.

If you have any questions, please contact me at (703) 604-9312.

Theresa S. Hull
Assistant Inspector General for Audit
Acquisition, Contracting, and Sustainment

Contents

Introduction

Objective

We determined whether the Defense Health Agency (DHA) paid higher prices than necessary for TRICARE health care services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates. A TRICARE maximum allowable reimbursement rate is the payment ceiling for reimbursement to providers. For the purposes of this report, we compared the amounts paid to other sources to include rates published by Federal and state government programs to determine areas where DHA paid more than necessary.

We focused on claims for which DHA paid the amount the provider billed (paid-as-billed) for vaccines and contraceptive systems, such as human papillomavirus (HPV) vaccines and intrauterine devices (IUD); compression devices; oral appliances for the treatment of obstructive sleep apnea; charges for the installation of medical equipment; and costs associated with obtaining stem cells that were provided to beneficiaries in the TRICARE North, South, and West Regions in 2017. We selected those services for review because of their high claim costs. See Appendix A for scope, methodology, and prior coverage.

Background

Defense Health Agency and the TRICARE Program

DHA, an agency under the control, authority, and direction of the Assistant Secretary of Defense (Health Affairs), manages the TRICARE program. TRICARE is the DoD's managed health care program for active duty service members, retirees, and eligible family members, both in the United States and overseas. Before January 1, 2018, the TRICARE program was divided into three health care service regions in the United States—North, South, and West (referred to in our report as the three TRICARE regions). DHA awarded contracts to three contractors to manage health care support and claims processing for the three TRICARE regions.

On January 1, 2018, the TRICARE program transitioned to two newly restructured health service regions in the United States: TRICARE East and TRICARE West, as shown in Figure 1. DHA awarded contracts to two contractors to manage health care support and claims processing.

Figure 1. Former and Current TRICARE Regions in the United States

Before January 1, 2018: 3 TRICARE Regions **Beginning January 1, 2018: 2 TRICARE Regions**

Source: The DoD Office of Inspector General (DoD OIG).

TRICARE Reimbursement Methodologies

DHA uses various reimbursement methodologies to determine the maximum amount of money that will be paid for non-institutional charges for medical services and equipment.[1] Specifically, DHA uses TRICARE maximum allowable rates from the three following reimbursement methodologies:

- TRICARE-developed Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) maximum allowable charge (CMAC) rates;
- durable medical equipment prosthetics, orthotics, and supplies (DMEPOS) fee schedules; and
- state prevailing rates.[2]

When none of these reimbursement methodologies are established for a health care service or equipment, DHA reimburses providers based on the amount billed (paid-as-billed). Also, DHA pays-as-billed when the amount billed is less than existing TRICARE maximum allowable reimbursement rates.

The TRICARE Reimbursement Manual states that the CMAC rate is mandatory for reimbursement of services, such as doctor visits, provided by network or non-network providers and applies to all 50 states, Puerto Rico, and the U.S. territories.[3] In FY 1991, public law limited payments to physicians and other individual health care providers, and set TRICARE payments at

[1] Institutional claims include claims from home health care agencies, as well as inpatient claims from hospitals, rehabilitation centers, and skilled nursing facilities. Non-institutional claims include claims for all other health care services, including pharmacy claims.

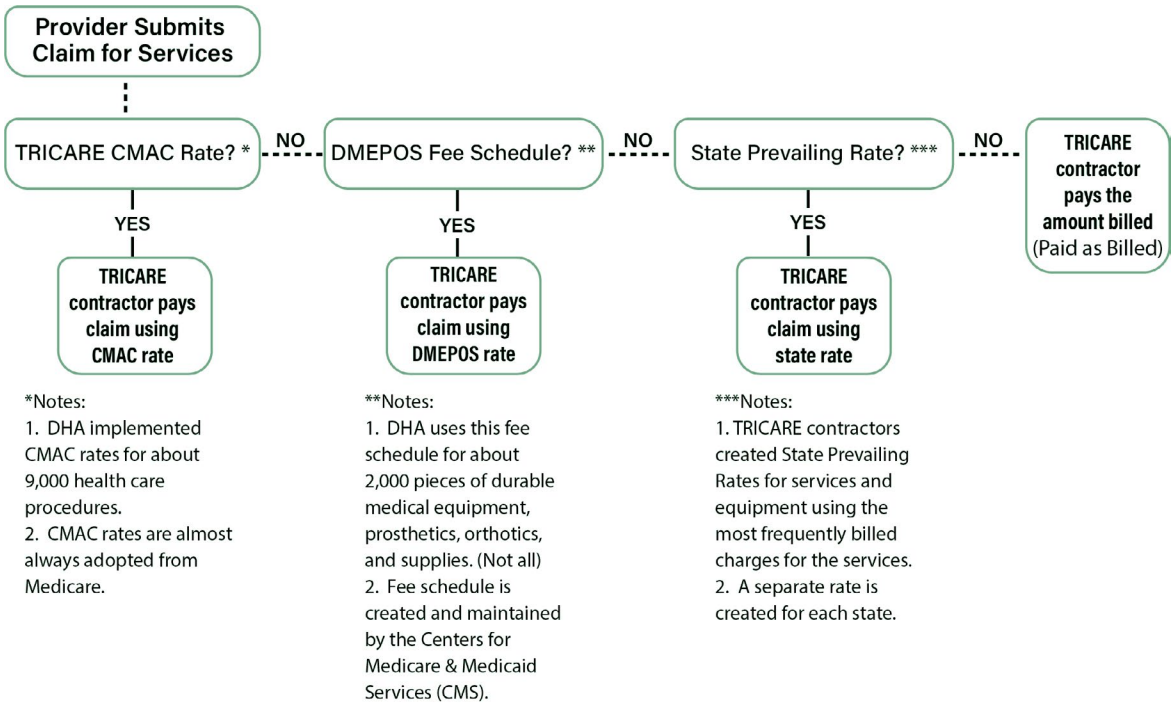
[2] DHA generally develops its CMAC rates using Medicare reimbursement rates; however, according to DHA personnel, not all CMAC rates for professional and lab procedures are directly obtained or derived from Medicare.

[3] TRICARE Reimbursement Manual 6010.58-M, February 1, 2008.

the Medicare locality levels.[4] Using the language from this public law, DHA generally set TRICARE payments for health care at the Medicare locality levels beginning in 1992.

The TRICARE Reimbursement Manual also states that, if a CMAC rate is not established, the contractor must reimburse under Medicare-developed DMEPOS fee schedules. If a DMEPOS fee schedule does not exist for the health care services or equipment, the TRICARE region contractor will reimburse providers for health care services or equipment using state prevailing rates, which are developed by TRICARE region contractors. If a state prevailing rate is not available, the TRICARE region contractor is required to reimburse the service or equipment based on billed charges. The Manual also states that the TRICARE region contractor may negotiate provider agreements with provisions that may include discounts. Figure 2 shows the TRICARE reimbursement process for non-institutional charges.

Figure 2. TRICARE Reimbursement Process



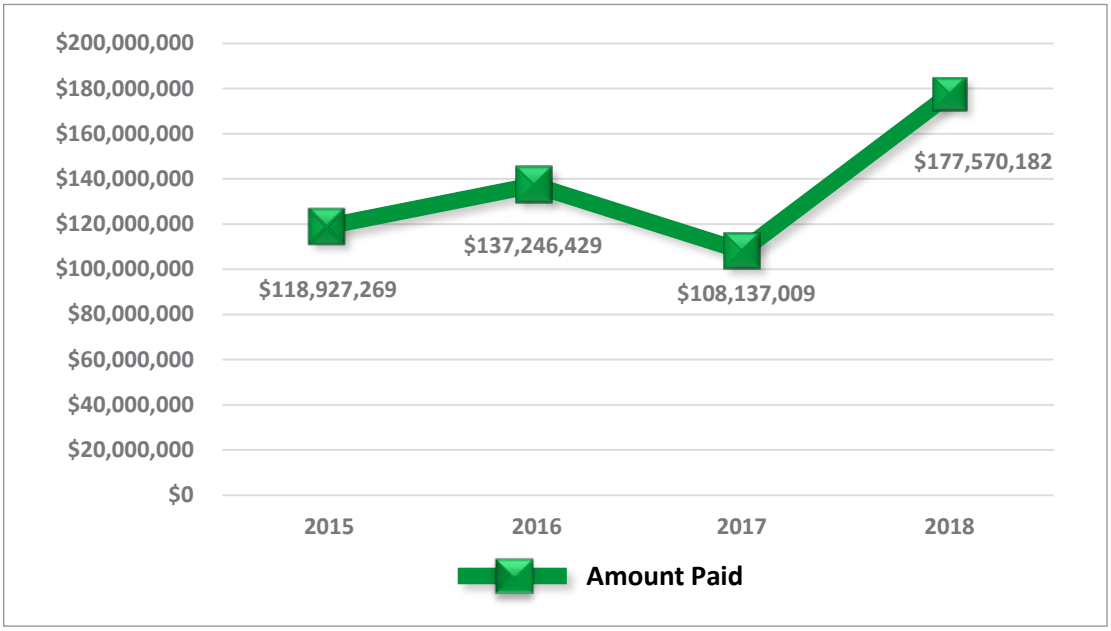
Note: DHA will pay the amount billed if it is below the TRICARE maximum allowable reimbursement rate.
Source: The DoD OIG.

[4] Public Law 101-511, "Defense Appropriations Act for Fiscal Year 1991," section 8012, November 5, 1990. The Centers for Medicare & Medicaid Services manages the Medicare program, a health insurance program for people age 65 or older, people under age 65 with certain disabilities, and people of all ages with end-stage renal disease.

Payments for Health Care Services and Equipment Without TRICARE Maximum Allowable Reimbursement Rates

Costs for paid-as-billed services and equipment in the three TRICARE regions increased from 2015 to 2018, as shown in Figure 3. According to DHA's Military Health System Data Repository (MDR), DHA paid $177.6 million for TRICARE paid-as-billed services and equipment provided to beneficiaries in the two TRICARE regions in 2018.

Figure 3. TRICARE Payments for Paid-as-Billed Claims for 2015 through 2018



Source: Military Health System Data Repository.

Industry Pricing for Vaccines, Contraceptive Systems, Durable Medical Equipment, and Stem Cell Acquisition

To determine whether DHA paid more than necessary for vaccines and contraceptive systems, such as IUDs and implantable contraceptive devices, durable medical equipment (DME), and stem cell acquisition, we compared the amounts that DHA paid to rates established by vaccine manufacturers and state Medicaid programs, as well as retail prices and the Medicare reimbursement methodology.[5]

- **Vaccines**. We compared the amounts that DHA paid for vaccines to industry vaccine manufacturer rates published by the Centers for Disease Control and Prevention (CDC).[6] The CDC is a Federal agency

[5] We selected the three highest paid DME procedure codes (HCPCS® E0676, E0486, and E1399) and the organ/stem cell acquisition procedure code (HCPCS® C9899) because of the high claim costs to determine whether DHA paid more than necessary for the health care services and equipment.

[6] The CDC publishes current and prior price lists for vaccines at https://www.cdc.gov/vaccines/programs/vfc/awardees/vaccine-management/price-list/index.html and https://www.cdc.gov/vaccines/programs/vfc/awardees/vaccine-management/price-list/archive.html. The CDC refers to these rates as private sector prices, which are reported by vaccine manufacturers annually to CDC. We refer to these rates as vaccine manufacturer rates throughout the report.

within the Department of Health and Human Services that works to protect the United States from health, safety, and security threats, both foreign and domestic.

- **Contraceptive Systems**. We compared the amounts DHA paid for contraceptive systems, such as IUDs and implantable contraceptive devices, to state Medicaid rates.[7] Figure 4 shows three examples of intrauterine contraception devices and one implant contraceptive device. We reviewed Medicaid websites for all 50 states to determine the amounts that the Medicaid program paid for contraceptive systems. Table 1 shows the Medicaid reimbursement rates for each contraceptive system.

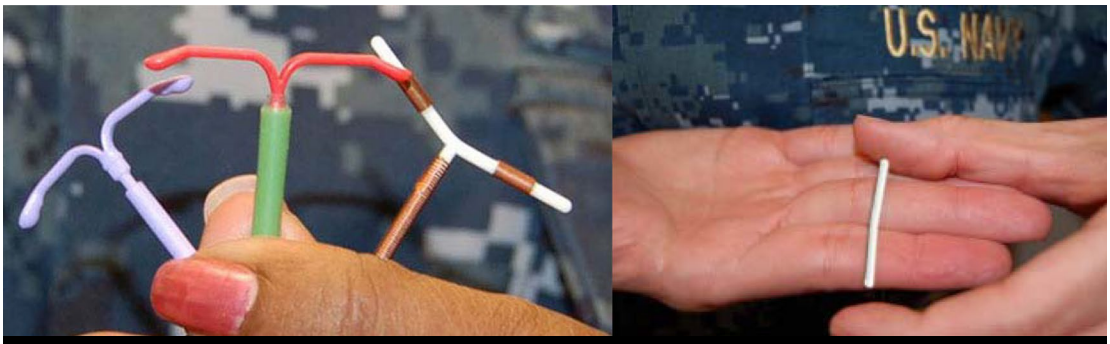


Figure 4. Examples of Intrauterine and Implant Contraceptive Devices
Source: Navy and Marine Corps Public Health Center.

Table 1. Lowest to Highest Medicaid Reimbursement Rates for Contraceptive Systems

Contraceptive System (Procedure Code)	No. of States with Online Published Medicaid Rates	Lowest to Highest Medicaid Rates
Liletta (J7297)	38	$470 to $821
Mirena (J7298)	38	$657 to $1,091
Paragard (J7300)	40	$196 to $970
Skyla (J7301)	38	$650 to $908
Nexplanon (J7307)	38	$588 to $1,086

Source: Medicaid online-published fee schedules.

[7] Medicaid provides health coverage to millions of Americans, including eligible low-income adults, children, pregnant women, elderly adults, and people with disabilities. Medicaid is administered by states, according to Federal requirements. The program is funded jointly by states and the Centers for Medicare & Medicaid Services (CMS).

An intrauterine device is a small T-shaped device placed inside the uterus to prevent pregnancy. Another contraceptive method includes an implant of a single, thin rod that is inserted under the skin of the upper arm and releases a hormone into the body.

- **Durable Medical Equipment**. We compared amounts that DHA paid for medical equipment to prices charged by other DME suppliers. We contacted manufacturers and searched the Internet for other DME suppliers that offered the same equipment.
- **Stem Cell Acquisition**. We compared amounts that DHA paid for stem cell acquisitions to the amounts that DHA would have paid if it used a Medicare reimbursement methodology established by the Centers for Medicare & Medicaid Services (CMS).

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness over DHA's payments for health care services and equipment that are paid-as-billed. Specifically, DHA did not have controls in place to ensure that DHA paid only reasonable prices for vaccines, contraceptive systems, DME, and stem cell acquisitions. We will provide a copy of the final report to the senior official responsible for internal controls in DHA.

Finding

DHA Paid Higher Prices for Health Care Services and Equipment

We determined that DHA paid more than other pricing benchmarks for services and equipment where it did not establish or use existing TRICARE maximum allowable reimbursement rates. Specifically, DHA paid more than other pricing benchmarks for vaccines, contraceptive systems, compression devices, oral appliances, costs associated with the installation of medical equipment, and stem cell acquisition provided to TRICARE beneficiaries in the three TRICARE regions in 2017.[8] For example, DHA paid higher prices for 70,248 of 107,953 vaccines (65.1 percent), and 1,341 of 5,450 contraceptive systems (24.6 percent). DHA paid higher prices because it did not:

- use existing TRICARE maximum allowable reimbursement rates or other industry pricing benchmarks to pay TRICARE claims for vaccines and contraceptive systems;
- identify services and equipment that were paid at prices that exceeded other pricing benchmarks;
- define in TRICARE guidance what would constitute an excessive payment for TRICARE services and equipment, and provide instructions to its TRICARE contractors to identify and limit these charges; or
- consistently revise TRICARE reimbursement methodology to align with Medicare reimbursement methodologies when paying for TRICARE services and equipment.

As a result, of the $18.1 million we reviewed, DHA paid $3.9 million more than other pricing benchmarks for vaccines and contraceptive systems provided to TRICARE beneficiaries in the three TRICARE regions in 2017. If DHA continues its current paid-as-billed practice, and prices and volume stay the same, DHA will waste an additional $19.5 million for vaccines and contraceptive systems over the next 5 years.[9]

[8] We began the audit in March 2018; therefore, we obtained data for 2017, which was the most complete year of data.

[9] We identified that DHA paid $3,896,703 more than other pricing benchmarks for vaccines and contraceptive systems provided in 2017. DoD Manual 7600.07, "DoD Audit Manual," August 3, 2015, states that potential monetary benefits may be reported up to a 6-year period covered by the most current Program Objective Memorandum, DoD Program Decision Memorandum, or Approved Future Years Defense Program. Therefore, we calculated that, at $3,896,703 per year, an additional $19,483,513 of funds could be put to better use over the following 5 years if DHA implements the recommendation.

Furthermore, we also identified instances in which DHA paid more than other pricing benchmarks for DME and costs associated with obtaining stem cells acquisition.

Finally, DHA policy requires beneficiaries in certain TRICARE categories to pay cost shares for DME. Therefore, TRICARE beneficiaries will continue to pay higher out-of-pocket costs if DHA does not establish or use existing TRICARE maximum allowable reimbursement rates.

DHA Paid Higher Prices for Health Care Services and Equipment That Were Paid-as-Billed

DHA paid more than other pricing benchmarks for vaccines, contraceptive systems, DME, and stem cell acquisitions provided to TRICARE beneficiaries in the three TRICARE regions in 2017. Specifically, DHA paid $108.1 million for health care services and equipment without using any pricing methodologies (paid-as-billed).[10] Of the $108.1 million, DHA paid $12.8 million for 107,953 vaccines and $5.3 million for 5,450 contraceptive systems that were paid-as-billed.[11]

DHA Paid Higher Prices for Vaccines

DHA paid $3.1 million more for 70,248 of 107,953 vaccines provided to beneficiaries in the three TRICARE regions in 2017 when compared to vaccine manufacturer retail prices.[12] For example, DHA paid $4.3 million for 17,751 GARDASIL9 vaccines that were paid-as-billed. According to the manufacturer, the GARDASIL9 vaccine is given to prevent certain cancers and lesions caused by nine types of HPV. The CDC reported that the vaccine manufacturer price for GARDASIL9 was $204.87; however, DHA paid more than the vaccine manufacturer price for 13,044 of the 17,751 claims.[13] As a result, DHA paid $939,404 more for GARDASIL9 vaccines than if it had paid the manufacturer's price.[14] For example, DHA paid as much

[10] DHA requires TRICARE region contractors to identify a "pricing rate code" for each health care claim that they pay. The "pricing rate code" shows the contractor's pricing methodology to indicate whether the claim was paid using a specific reimbursement methodology or whether the claim was paid without any cost containment (paid-as-billed).

[11] DHA paid $13.4 million for 130,365 vaccines that were paid-as-billed; however, DHA implemented a new reimbursement program for vaccines that covered nine states. (See the "Management Actions" section of the report for more details.) Therefore, we excluded payments for 22,412 vaccines totaling $600,252 that were provided to beneficiaries in these nine states in 2017.

[12] The CDC website publishes vaccine manufacturer prices reported annually by vaccine manufacturers to the CDC. While vaccine manufacturers may negotiate significant discounts from these prices, we used the non-discounted prices for the analysis to remain conservative when estimating the amount that DHA paid more than necessary. For the purposes of this report, we compared the amount that DHA spent to the vaccine prices reported annually by vaccine manufacturers.

[13] DHA paid less than the vaccine manufacturer price for 4,707 vaccines because TRICARE providers chose to bill an amount that happened to be less than the vaccine manufacturer prices as reported by the CDC.

[14] The price was $204.87 as of April 1, 2018. In 2017, the price ranged from $193.63 to $204.87.

as $1,670.69 for one dose of the HPV vaccine—$1,465.82 more than the $204.87 vaccine manufacturer price. Table 2 shows the amount that DHA paid per HPV vaccine for the three TRICARE regions in 2017.[15]

Table 2. Range of Amounts That DHA Paid for HPV Vaccine (CPT90651) in 2017

Range of Amount Paid per HPV Vaccine	Number of HPV Vaccines	Amount Paid	Percentage of Total Amount Paid
$1,000+	50	$54,485	1.3%
$600 - $999.99	95	$74,297	1.7%
$400-$599.99	618	$276,532	6.4%
$205-$399.99	12,281	$3,206,414	74.3%
Subtotal	**13,044**	**3,611,728**	**83.7%**
Below $205*	4,707	$704,725	16.3%
Total	**17,751**	**$4,316,453**	**100.0%**

* CDC Vaccine Manufacturer Rate for GARDASIL9 was $204.87, as of April 2018.
Source: Military Health System Data Repository.

DHA also paid $2.1 million more than vaccine manufacturer rates for other vaccines. For example, DHA paid $743 for one dose of the ProQuad vaccine for measles, mumps, rubella, and varicella; however, the vaccine manufacturer price for ProQuad was only $202.41. Table 3 shows several examples of TRICARE payments that substantially exceeded vaccine manufacturer rates for commonly purchased vaccines provided to beneficiaries in 2017.

[15] Manufacturers may develop more than one vaccine for a given CPT procedure code; however, we selected the vaccine that had the highest reimbursement rate as reported by the CDC to ensure that our analysis was conservative. For example, DHA reported that two meningococcal conjugate vaccines are listed under CPT®90734: Menveo, which was developed by GlaxoSmithKline with a vaccine manufacturer rate of $126.95, and Menactra, which was developed by Sanofi Pasteur with a vaccine manufacturer rate of $116.30. For our analysis, we used the higher rate when evaluating the amount paid by DHA.

Table 3. Examples of DHA Paying More Than Vaccine Manufacturer Prices in 2017

Procedure Code (CPT)	CPT Description	Vaccine Trade Name	Vaccine Manufacturer Rate*	Examples of TRICARE Payments That Exceeded Vaccine Rate	Amount DHA Paid More Than Necessary	Percentage DHA Paid More Than Necessary
90734	Meningococcal conjugate vaccine, serogroups A, C, Y and W-135, quadrivalent (MenACWY), for intramuscular use	Menveo	$126.95	$1,848.00	$1,721.05	1,356%
90700	Diphtheria, tetanus, toxoids, and acellular pertussis vaccine (DTaP), when administered to individuals younger than 7 years, for intramuscular use	Daptacel	$30.00	$316.00	$286.00	953%
90723	Diphtheria, tetanus toxoids, acellular pertussis vaccine, hepatitis B, and inactivated poliovirus vaccine (DTaP-HepB-IPV), for intramuscular use	Pediarix	$76.95	$749.75	$672.80	874%
90647	Haemophilus Influenza Type b vaccine (Hib), PRP-OMP conjugate	PedvaxHIB	$26.23	$221.30	$195.07	744%
90716	Varicella virus vaccine (VAR), live, for subcutaneous use	Varivax	$122.02	$811.05	$689.03	565%
90633	Hepatitis A vaccine, pediatric/adolescent dosage	Vaqta	$32.03	$200.00	$167.97	524%
90680	Rotavirus vaccine, pentavalent (RV65), live, for oral use	RotaTeq	$82.89	$449.40	$366.51	442%

* Amounts reported by the vaccine manufacturers to the CDC
Source: Military Health System Data Repository.

DHA Paid Higher Prices for Contraceptives

DHA paid $0.8 million more than the highest Medicaid rates for 1,341 of 5,450 contraceptive systems provided to beneficiaries in the three TRICARE regions in 2017. For example, DHA paid more than the highest Medicaid rate for Mirena IUD contraceptive systems for 837 of 2,599 claims, as shown in Table 4.

*Table 4. Range of Amounts That DHA Paid for the Mirena IUD in 2017**

Range of Amount Paid per HPV Vaccine	Number of Mirena IUDs	Amount Paid	Percentage of Total Amount Paid
$4,000+	15	$72,238	2.5%
$3,000-$3,999	81	$272,167	9.5%
$2,000-$2,999	115	$279,218	9.7%
$1,091-$2,000	626	$876,575	30.5%
Subtotal	**837**	**$1,500,198**	**52.2%**
Below $1,091*	1,762	$1,375,751	47.8%
Total	**2,599**	**$2,875,949**	**100%**

* The highest Medicaid rate for procedure code J7298 was $1,090.76.
Source: Military Health System Data Repository.

As a result, DHA paid $587,232 more than the highest Medicaid rates for Mirena IUD contraceptive systems. Thirty-eight states reported Medicaid reimbursement rates between $656.82 and $1,090.76 for the Mirena IUD contraceptive system. However, DHA paid more than the highest Medicaid rate, $1,090.76, for 837 Mirena IUD contraceptive systems and paid as much as $6,081 for one Mirena IUD.

DHA also paid $0.3 million more than the highest Medicaid rates for other contraceptive systems. For example, DHA paid as much as $5,384 for the Nexplanon implantable contraception system even though the highest Medicaid rate was $1,086. Table 5 shows several examples of TRICARE payments that exceeded the highest Medicaid rate paid for contraceptive systems provided to beneficiaries in 2017.

Table 5. Examples of DHA Paying More Than the Highest Medicaid Rates for Contraceptive Systems in 2017

Procedure Code (HCPCS*)	Description	Device Name	Highest Medicaid Rate	Examples of TRICARE Payments That Exceeded Highest Medicaid Rate	Amount DHA Paid More Than Necessary	Percentage DHA Paid More Than Necessary
J7298	Levonorgestrel-releasing IUD, 52 mg, 5 year duration	Mirena	$1,091	$6,081	$4,990	457%
J7297	Levonorgestrel-releasing IUD, 52 mg, 3 year duration	Liletta	$821	$4,223	$3,402	414%
J7307	Etonogestrel (contraceptive) implant system, including implants and supplies	Nexplanon	$1,086	$5,384	$4,298	396%

Table 5. Examples of DHA Paying More Than the Highest Medicaid Rates for Contraceptive Systems in 2017 (cont'd)

Procedure Code (HCPCS*)	Description	Device Name	Highest Medicaid Rate	Examples of TRICARE Payments That Exceeded Highest Medicaid Rate	Amount DHA Paid More Than Necessary	Percentage DHA Paid More Than Necessary
J7300	Intrauterine copper contraceptive	Paragard	$970	$4,040	$3,070	316%
J7301	Levonorgestrel-releasing intrauterine contraceptive system, 13.5 mg	Skyla	$908	$3,300	$2,392	263%

* Healthcare Common Procedure Coding System
Source: Military Health Data Repository.

Figure 5. Compression Device Provided by TRICARE DME Supplier
Source: The DoD OIG.

DHA Paid Higher Prices Than Other Pricing Benchmarks for Other Health Care Services and Equipment

DHA paid more than other pricing benchmarks for DME, including compression devices, oral appliances, and installation costs, and for the acquisition of stem cells, as described in the following four examples.

DHA Paid More Than Retail Prices for Compression Devices

DHA paid a DME supplier as much as $5,000 per month to rent a VascuTherm 2 compression device (shown in Figure 5) even though our pricing research showed that two other suppliers rented the same device for less than $700 per month.[16]

[16] According to the manufacturer, ThermoTek Inc., the VascuTherm 2 is a device that helps with preventing deep vein thrombosis (DVT) using heating and cooling temperature management with vascular compression.

DHA Paid More Than Medicare Prices for Oral Appliances

~~(FOUO)~~ A TRICARE dental provider frequently billed $6,500 for custom fabricated oral appliances (shown in Figure 6) used to treat obstructive sleep apnea syndrome, and DHA paid the full amount, less applicable cost shares.[17] In contrast, the Medicare program does not pay the full amount billed for claims submitted by the same dental provider for oral appliances. For example, the Medicare program reduced the allowed amount to only [redacted] for an oral appliance provided by the same dental provider. Had DHA paid a similar amount to the Medicare price, it would have saved as much as [redacted] per oral appliance.

Figure 6: Oral Appliances Provided by TRICARE Dental Supplier
Source: The DoD OIG.

Furthermore, DHA paid for oral appliances that were used solely to treat snoring—contrary to TRICARE guidance, which states that oral appliances are only allowed for the treatment of obstructive sleep apnea syndrome.[18] DHA personnel confirmed that oral appliances are not allowed for the treatment of snoring alone. However, the TRICARE dental provider billed, and DHA paid, $6,500 for a Myerson's EMA oral appliance (shown in Figure 6) that was provided to a beneficiary to treat snoring only. Personnel at the TRICARE dental provider stated that the beneficiary did not have obstructive sleep apnea and provided the sleep study that verified that the patient did not have obstructive sleep apnea. DHA improperly paid for the oral appliance even though the TRICARE claims system showed that the TRICARE claim had a diagnosis of snoring only and no indication of obstructive sleep apnea. TRICARE claims data showed that DHA paid $23,850 for an additional five claims for oral appliances for diagnoses of snoring only.

[17] Some TRICARE beneficiaries are required to pay beneficiary cost shares and copayments for certain health care services and equipment. For example, the cost share for a TRICARE beneficiary (retiree) for a custom fabricated oral appliance is 25 percent of the billed amount. If the TRICARE provider billed $6,500 for an oral appliance provided to the retiree, the retiree would pay $1,625 to the TRICARE provider and DHA would pay the remaining $4,875 to the TRICARE provider. Other beneficiaries, such as active duty service members, do not have a cost share.

[18] TRICARE Policy Manual 6010.60-M, April 1, 2015, chapter 7, section 19.1, "Diagnostic Sleep Studies," April 1, 2015.

DHA Paid Higher Prices for DME Installation

A DME supplier billed, and DHA paid, for installation work that appeared to be construction work, which is not permitted by the TRICARE program. The supplier billed $19,427 for an overhead lift system, sensory swing, and installation. The supplier's invoice included $6,526 for installation work, accounting for one-third of the amount billed. We obtained supporting documentation from the DME supplier, which showed that installation costs included the "removal of drywall, added backing, and replacement and patch, paint, [and] texture of ceiling at bracket placement."

Supplier personnel stated that they define installation as tasks, such as "bolting" something down, but define construction as "structurally changing the home." While installation is a covered benefit, the TRICARE program does not cover permanent changes or modifications to homes. In this case, removal of drywall, added backing, and replacement and patch, paint, and texture of ceiling at bracket placement are all considered to be construction costs not installations costs.

DHA Paid More Than Existing TRICARE Maximum Allowable Reimbursement Rates for Stem Cell Acquisition

A hospital billed $964,998 for a 24-day inpatient stay during which a beneficiary received umbilical cord blood stem cells.[19] The TRICARE region contractor divided the claim: claim one of $422,408 covered solely the acquisition costs for two units of cord blood stem cells, and claim two of $542,591 covered the remaining hospital charges and services. Although the contractor limited payment for the claim for the remaining hospital charges to $145,101, it paid the $422,408 claim for the entire acquisition costs of umbilical cord blood stem cells.[20]

While DHA paid the full acquisition costs of umbilical cord blood stem cells, DHA should have instead used existing TRICARE maximum allowable reimbursement rates, similar to the Medicare program, which would have significantly lowered the amount paid for the stem cells. Medicare policy states that Medicare does not make separate payment for these acquisition services, but instead includes them

[19] According to the National Marrow Donor Program, cord blood is collected from the umbilical cord immediately after birth. The donated cord blood is tested, frozen, and stored as a cord blood unit at a public cord blood bank for future use. Umbilical cord blood helps treat leukemia, lymphoma, sickle cell anemia, and other life-threatening diseases.

[20] According to TRICARE Reimbursement Manual 6010.61-M, chapter 6, section 2, "Hospital Reimbursement—TRICARE [Diagnostic] Related Group (DRG)-Based Payment System (General Description of System)," April 1, 2015, TRICARE limits payment for institutional hospital claims using diagnostic related groups (DRGs). Under this reimbursement system, payment for hospital operating costs is made using specific rates. The TRICARE DRG-based payment system is modeled on the Medicare Prospective Payment System. Many of the procedures in the TRICARE DRG-based payment system are similar or identical to the procedures in the Medicare Prospective Payment System, but the actual payment amounts and certain procedures may be different. The differences are necessary because Medicare beneficiaries are generally over age 65, while the TRICARE program includes younger beneficiaries and provides other services, such as obstetric and pediatric services.

with the hospital charges that the contractor separated out.[21] Had the contractor included the stem cell acquisition costs with the hospital charges, it would have paid only $207,617 for all charges, resulting in potential savings of $359,892, as shown in Table 6.

Table 6. Possible Savings Using Medicare Methodology for Stem Cell Acquisition

Methodology	Services	Payment Limitation	Billed	Paid
TRICARE (Current)	Hospital Charges	DRG Limited	$542,591	$145,101
	Stem Cell Acquisition	Paid-as-billed	$422,408	$422,408
	Total		$964,998*	$567,508*
TRICARE (If DHA Used Medicare Methodology)	Hospital Charges + Stem Cell Acquisition	DRG Limited	$964,998	$207,617
Difference Between Actual Amount Paid and Amount Paid Using Medicare Methodology				**$359,892***

* Totals may not equal the actual totals because of rounding.
Source: Military Health System Data Repository and supporting medical documentation.

Furthermore, the Executive Director of an intermediary organization responsible for acquiring the umbilical cord blood stem cells from two blood banks for the hospital and preparing the stem cells for transplant stated that the amount the hospital charged was "steep." The Executive Director, Business Manager, and the Director of Regulatory Affairs for the intermediary organization reviewed information that they had on file for this particular claim and the Executive Director stated that they would expect a price of about $100,000 for two units of cord blood, as well as additional fees that would amount to less than $10,000. Therefore, even if DHA paid the full $110,000 for the umbilical cord blood stem cells plus the $145,101 it paid for the inpatient stay, DHA would have paid only $255,101, resulting in possible savings of $312,408. Figure 7 shows a unit of cord blood.

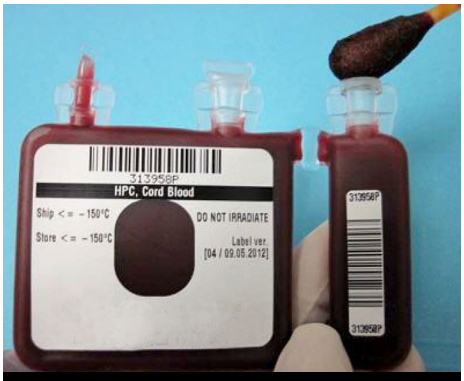


Figure 7. Unit of Cord Blood
Source: National Institutes of Health.

[21] CMS Publication 100-04, "Medicare Claims Processing Manual," chapter 3, "Inpatient Hospital Billing," May 10, 2018.

DHA Did Not Implement TRICARE Maximum Allowable Reimbursement Rates, Medicare Reimbursement Methodologies, and Medicare Guidance

DHA paid more for vaccines, contraceptive systems, DME, and stem cell acquisitions provided to TRICARE beneficiaries in the three TRICARE regions in 2017 because DHA did not:

- use existing TRICARE maximum allowable reimbursement rates or other industry pricing benchmarks to pay TRICARE claims for vaccines and contraceptive systems;
- identify services and equipment that were paid at prices that exceeded other pricing benchmarks;
- define in TRICARE guidance what would constitute an excessive payment for TRICARE services and equipment, and provide instructions to its TRICARE contractors to identify and limit these charges; or
- consistently revise TRICARE reimbursement methodology to align with Medicare reimbursement methodologies when paying for TRICARE services and equipment.

DHA Did Not Use Existing TRICARE Maximum Allowable Reimbursement Rates for Vaccines and Contraceptive Systems

A TRICARE contractor paid $5,771.96 for a Mirena IUD; however, the contractor would have paid $1,036.22 if it had used the TRICARE maximum allowable reimbursement rate.

~~(FOUO)~~ DHA paid more than other pricing benchmarks for vaccines and contraceptive systems because DHA did not use existing TRICARE maximum allowable reimbursement rates or other industry pricing benchmarks to pay TRICARE claims for vaccines and contraceptive systems. The Chief of Medical Benefits and Reimbursement Systems at DHA stated that DHA had maximum allowable reimbursement rates for vaccines and contraceptive systems, [redacted]. For example, a TRICARE contractor paid:

- $1,361.50 for a GARDASIL9 vaccine; however, the contractor would have paid $233.41 if it had used the TRICARE maximum allowable reimbursement rate. Therefore, DHA overpaid $1,128.09 (483 percent) for the vaccine.
- $5,771.96 for a Mirena IUD; however, the contractor would have paid $1,036.22 if it had used the TRICARE maximum allowable reimbursement rate. Therefore, DHA overpaid $4,735.74 (457 percent) for the contraceptive system.

Contractor personnel stated that they are researching why the claims processing system did not apply the TRICARE maximum allowable reimbursement rates.

The DHA Director should identify the reasons why TRICARE region contractors did not use existing TRICARE maximum allowable reimbursement rates, and take immediate actions to confirm that TRICARE claims for vaccines and contraceptive systems are paid using the TRICARE maximum allowable reimbursement rates. The Director should also recoup overpayments for which the TRICARE contractors did not use existing TRICARE maximum allowable reimbursement rates. Further, the Director should determine whether TRICARE region contractors did not apply TRICARE maximum allowable reimbursement rates to health care services, other than just vaccines and contraceptive systems.

Additionally, the TRICARE maximum allowable reimbursement rates could be further reduced by using the vaccine manufacturer rates as reported by the CDC. For example, the TRICARE maximum allowable reimbursement rate for GARDASIL9 was $233.41; however, the vaccine manufacturer reported to the CDC that the price for GARDASIL9 was $204.87, as of April 2018. Therefore, the Director should conduct a review to determine whether DHA should adopt vaccine manufacturer rates as reported by the CDC when reimbursing TRICARE claims for vaccines. If adopted, DHA should regularly update rates to stay current with the vaccine manufacturer rates as reported by the CDC.

DHA Did Not Fully Analyze Potentially Excessive Payments for TRICARE Services and Equipment

DHA paid more for TRICARE services and equipment because DHA did not fully analyze excessive payments for TRICARE services and equipment. DHA officials stated that DHA annually reviewed high-level claims data when determining payment levels for the services. However, DHA personnel stated that they did not analyze TRICARE claims data to determine whether DHA should implement TRICARE maximum allowable reimbursement rates for certain types of services and equipment, such as compression devices and oral appliances.

~~(FOUO)~~ Personnel from the DHA Medical Benefits and Reimbursement Systems division stated that there were contractual obligations to establish internal controls and program integrity cases. Personnel from the DHA contractors stated that they reviewed claims that met a certain threshold; however, many of the claims discussed in this report fell below their thresholds. Personnel from the DHA Program Integrity Office stated that their office analyzed

~~(FOUO)~~ non-institutional TRICARE claims that exceeded a threshold [redacted].[22] However, their review was to determine whether the claim or provider involved potentially abusive or fraudulent activity, not to implement TRICARE maximum allowable reimbursement rates.

The DHA Director should conduct annual reviews to identify health care services, supplies, and equipment for which TRICARE paid higher prices, and establish and implement the new TRICARE maximum allowable reimbursement rates.

DHA Did Not Define Excessive and Reasonable Charges

TRICARE policy does not define excessive and reasonable pricing, nor does the guidance establish a methodology to determine whether costs are excessive and reasonable. DHA personnel stated that they relied on TRICARE regional contractors to identify excessive payments and take appropriate actions; however, TRICARE East and West Region contractor personnel stated that TRICARE policy did not define excessive and reasonable charges.

Medicare Guidance for Determining Reasonable Charges

Medicare program regulations provide criteria to determine what charges are reasonable, and authorize the CMS or its carriers to develop "special reasonable charge limits" if they determine that the standard methods for calculating reasonable charges would result in "grossly deficient or excessive charges."[23] The regulations list circumstances that may indicate grossly deficient or excessive payment amounts, such as:

- payment amounts in a specific location are grossly higher or lower than payment amounts in other comparable locations for the category of items or services;
- grossly higher payments than acquisition or production costs for the category of items or services;
- increases in payment amounts for items or services that cannot be explained by inflation or technology; or
- payment amounts for items or services are grossly higher or lower than the payments made for the same category of items or services by other purchasers in the same location.

[22] The DHA Program Integrity Office is responsible for anti-fraud and abuse activities to protect the TRICARE program and eligible beneficiaries. In the event that this office identifies criminal activity, it will refer program integrity cases to law enforcement agencies.

[23] Section 405.502, title 42, Code of Federal Regulations (42 CFR 405.502), "Criteria for determining reasonable charges" (2017).

DHA officials stated that the TRICARE program does not have the same flexibility as the Medicare program and that this flexibility would allow DHA and its TRICARE regional contractors to better combat excessive prices.

Medicare Prudent Buyer Guidance

The CMS developed guidance on "reasonable costs" in CMS Publication 15-1, "Provider Reimbursement Manual." CMS guidance states that it is the intent of the Medicare program to reimburse actual costs to providers. CMS guidance states that it expects:

> the provider seeks to minimize its costs and that its actual costs do not exceed what a prudent and cost-conscious buyer pays for a given item or service. If costs are determined to exceed the level that such buyers incur, in the absence of clear evidence that the higher costs were unavoidable, the excess costs are not reimbursable under the program.
>
> The cost of drugs and related medical supplies furnished by providers to Medicare beneficiaries are reimbursed by the program on a reasonable cost basis. To meet the test of reasonableness, the cost of the drug or related medical supply may not exceed the amount a prudent and cost-conscious buyer would pay for the same item.

CMS guidance establishes the following guidelines on being a "prudent buyer."

> The prudent and cost-conscious buyer not only refuses to pay more than the going price for an item or service, he/she also seeks to economize by minimizing cost. This is especially so when the buyer is an institution or organization which makes bulk purchases and can, therefore, often gain discounts because of the size of its purchases. In addition, bulk purchase of items or services often gives the buyer leverage in bargaining with suppliers for other items or services. Another way to minimize cost is to obtain free replacements or reduced charges under warranties for medical devices. Any alert and cost-conscious buyer seeks such advantages, and it is expected that Medicare providers of services will also seek them.

CMS guidance allows its contractors to take action to prevent and reduce excessive payments to providers.

> Intermediaries may employ various means for detecting and investigating situations in which costs seem excessive. Included may be such techniques as comparing the prices paid by providers to the prices paid for similar items or services by comparable purchasers, spot-checking, and querying providers about indirect, as well as direct, discounts. In addition, where a group of institutions has a joint purchasing arrangement which seems to

> result in participating members getting lower prices because of the advantages gained from bulk purchasing, any potentially eligible providers in the area which do not participate in the group may be called upon to justify any higher prices paid. In those cases where an intermediary notes that a provider pays more than the going price for a supply or service or does not try to realize savings available under warranties for medical devices or other items, in the absence of clear justification for the premium, the intermediary excludes excess costs in determining allowable costs under Medicare.

The DHA Director should revise TRICARE policy to incorporate wording regarding reasonable cost and being a prudent buyer similar to the related clauses in 42 Code of Federal Regulations (CFR) 405.502 and CMS Publication 15-1, "Provider Reimbursement Manual."

DHA Did Not Consistently Follow Medicare Reimbursement Methodologies

DHA paid more for TRICARE services and equipment than it would have if it used Medicare reimbursement methodologies where practicable, as required by United States Code.[24] For example, DHA paid $567,508 for a 24-day inpatient hospital stay during which the beneficiary received two units of umbilical cord blood stem cells. Using reimbursement methodologies similar to the Medicare program, DHA would have saved more than $300,000, as shown in Table 6.

DHA personnel provided additional examples of instances in which DHA would have spent less on health care services if it had followed the Medicare reimbursement methodologies. For example, according to DHA personnel, the Medicare program stopped reimbursing specific procedure codes for items provided by ambulatory surgery centers and began paying for these services under different procedure codes. As a result, the CMS eliminated the reimbursement rates for the retired procedure codes. However, DHA did not change its reimbursement methodology to follow Medicare's methodology. As a result, according to DHA personnel, DHA paid $432 for each implantable neurostimulator electrode prior to April 2014; however, DHA now pays as much as $6,700 for each electrode because DHA did not align its reimbursement methodology with the Medicare methodology.[25]

DHA personnel, DHA paid $432 for each implantable neurostimulator electrode prior to April 2014; however, DHA now pays as much as $6,700 for each electrode.

[24] Section 1079, title 10, United States Code, 2010, requires that, when practicable, payments be determined using the same reimbursement methodologies as those that apply to Title XVIII of the Social Security Act, also known as the Medicare program.

[25] An implantable neurostimulator electrode provides neuronal or nerve stimulation through an electrode. It consists of a battery connected to wires leading directly to the area to be stimulated.

The DHA Director should revise TRICARE reimbursement methodologies to align with the Medicare program, and establish a process to identify future changes to Medicare reimbursement methodologies. The Director should also seek voluntary refunds from TRICARE providers where DHA paid more than other pricing benchmarks identified in this report.

DHA Could Waste More than $19 Million

We calculated that DHA paid $3.9 million more than other pricing benchmarks (of $18.1 million reviewed) for vaccines and contraceptive systems provided to TRICARE beneficiaries in the three TRICARE regions in 2017. Specifically, DHA paid:

- $3.1 million more for vaccines than it would have if DHA implemented TRICARE maximum allowable reimbursement rates similar to rates reported by vaccine manufacturers; and
- $0.8 million more for IUDs and contraceptive implants than it would have if DHA implemented TRICARE maximum allowable reimbursement rates similar to the highest Medicaid reimbursement rates.

If DHA continues its current paid-as-billed practice, and prices and volume stay the same, DHA could waste an additional $19.5 million over the next 5 years. In addition, DHA may also pay more for other health care services and equipment, such as compression devices, oral appliances, and stem cell acquisitions, which are paid-as-billed. For example, we identified instances when DHA could have saved more than $4,000 per compression device if it had paid prices similar to the retail prices offered by two other DME suppliers for the same compression device.

DHA could have saved more than $4,000 per compression device if it had paid prices similar to the retail prices offered by two other DME suppliers.

Moreover, TRICARE beneficiaries will continue to pay higher out-of-pocket costs if DHA does not establish or use existing TRICARE maximum allowable reimbursement rates. For example, DHA policy requires beneficiaries in certain TRICARE categories to pay a 20-percent cost share for DME.[26] TRICARE beneficiaries paid costs of $1,000 when a TRICARE supplier billed $5,000 for a VascuTherm 2 compression device rental. This $1,000 cost share far exceeded the prices offered by two other DME suppliers that rented the same device for no more than $675, as shown in Table 7.

[26] TRICARE Reimbursement Manual 6010.61-M, chapter 2, section 2, "Cost Shares and Deductibles for TRICARE Services Received On or After January 1, 2018," April 1, 2015.

Table 7. Effect of Paid-as-Billed Claims on Beneficiary Out-of-Pocket Expenses

Paid-as-Billed Claim Example of Actual Beneficiary Out-of-Pocket Costs			Beneficiary Out-of-Pocket Costs Using Alternative DME Supplier Pricing		
Amount Billed by TRICARE Supplier	Amount DHA Paid to Supplier	Retired Beneficiary Out-of-Pocket ($5,000 x 20% cost share)	Amount Billed if Provided by Alternative DME Supplier (Industry Price)	Retired Beneficiary Out-of-Pocket if Provided by Alternative DME Supplier ($675 x 20%)	Savings for Retired Beneficiary ($1,000 - $135)
$5,000	$4,000	$1,000	$675*	$135	$865

* Research showed that two DME suppliers rented the same device for 30 days for $475 and $675. We used the higher of the two prices to be conservative.

Source: Military Health System Data Repository and internet research.

Management Actions Taken

During the audit, DHA officials took some corrective actions to address excessive costs for TRICARE services and equipment that were paid-as-billed. Specifically, as a result of a prior DoD OIG report, DHA revised TRICARE policy by implementing cost controls over the payment of standard electric breast pumps and associated replacement supplies.[27] For example, DHA established a TRICARE maximum allowable reimbursement rate of $312.50 for standard electric breast pumps provided to beneficiaries in the TRICARE East and West regions.

~~(FOUO)~~ Additionally, DHA is pursuing controlling costs for vaccines. Specifically, on April 1, 2018, DHA implemented procedures to limit the amount it pays for vaccines in nine states. Public law authorized the Secretary of Defense to reimburse state vaccination programs for the cost of vaccines provided to covered beneficiaries through such programs.[28] Also, in January 2019, the DHA Chief of Medical Benefits and Reimbursement Systems stated that DHA was [redacted].

[27] Report No. DODIG-2018-108, "TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts," April 25, 2018.

TRICARE Policy Manual 6010.60-M, chapter 8, section 2.6, "Breast Pumps, Breast Pump Supplies, And Breastfeeding Counseling," April 1, 2015.

[28] Public Law 114-328, "National Defense Authorization Act for Fiscal Year 2017," section 719, "Authorization of Reimbursement by Department of Defense to Entities Carrying Out State Vaccination Programs for Costs of Vaccines Provided to Covered Beneficiaries," 2016.

We did not include vaccines provided to beneficiaries in these nine states when calculating the amount DHA paid more than necessary.

~~(FOUO)~~ DHA officials stated that they were also working to adopt some Medicare methodologies to pay for specific TRICARE services, such as Medicare's [redacted]. DHA officials were also working toward adopting Medicare's [redacted].

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Defense Health Agency Director:

a. Identify the reasons why TRICARE region contractors did not use existing TRICARE maximum allowable reimbursement rates, and take immediate actions to confirm that TRICARE claims for vaccines and contraceptive systems are paid using the TRICARE maximum allowable reimbursement rates. Further, the Director should recoup overpayments for which the TRICARE contractors did not use existing TRICARE maximum allowable reimbursement rates.

Defense Health Agency Comments

The DHA Director agreed with the recommendation to identify the reasons why the TRICARE region contractors did not use existing reimbursement rates, to ensure that the TRICARE region contractors apply the existing reimbursement rates, and to recoup any overpayments where appropriate. The DHA Director planned to complete these actions by July 15, 2020.

Our Response

Comments from the Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once DHA (1) identifies the reasons why the TRICARE region contractors did not use existing reimbursement rates, (2) shows evidence that it corrected the payment systems, and (3) provides documentation that shows it recouped the improper payments.

b. Determine whether TRICARE region contractors did not apply TRICARE maximum allowable reimbursement rates to health care services, other than just vaccines and contraceptive systems.

Defense Health Agency Comments

The DHA Director agreed with the recommendation, stating that DHA would request more information from the TRICARE region contractors to meet the recommendation. The Director planned to complete this action by July 15, 2020.

Our Response

Comments from the Director addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once DHA provides the results of the review and any actions taken, which includes the recoupment of overpayments where the TRICARE contractors did not use existing TRICARE maximum allowable reimbursement rate.

c. Conduct a review to determine whether DHA should adopt vaccine manufacturer rates as reported by the CDC when reimbursing TRICARE claims for vaccines. If adopted, DHA should regularly update rates to stay current with the vaccine manufacturer rates as reported by the CDC.

Defense Health Agency Comments

The DHA Director agreed with the recommendation, stating that DHA initiated a policy review in 2018 for an alternative approach to reimbursement pricing of certain pediatric and other vaccines. The Director planned to complete the review by the end of 2019. The Director stated that TRICARE is statutorily obligated to follow reimbursement similar to the Medicare program, where practicable, which is consistent with current policy regarding pricing of vaccinations. The Director stated that using CDC pricing would be a deviation from Medicare pricing methodology, and would require review and approval by the Director.

Our Response

Comments from the Director addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once DHA provides the results of their policy review to identify an alternative approach to reimbursing certain pediatric vaccines and other vaccines.

d. Conduct annual reviews to identify health care services, supplies, and equipment for which TRICARE paid higher prices, and establish and implement new TRICARE maximum allowable reimbursement rates as necessary.

Defense Health Agency Comments

The DHA Director agreed with the recommendation, stating that DHA currently conducts annual reviews of health care services that do not have CMACs to determine if the DHA should establish rates in accordance with Chapter 5 of the TRICARE Reimbursement Manual.

Our Response

Comments from the Director did not address the recommendation; therefore, the recommendation is unresolved. The Director stated that DHA determines rates in accordance with Chapter 5 of the TRICARE Reimbursement Manual, which states, "when no maximum allowable charge is available, a prevailing charge is to be developed for the state where a service or procedure is provided." These state prevailing rates are developed by the TRICARE region contractors. While the development of state prevailing rates is a necessary step for controlling costs for services and equipment that do not have TRICARE maximum allowable reimbursement rates, we recommended that DHA perform its own annual review to provide oversight and ensure that the TRICARE region contractors are not paying excessive prices for services and equipment that are paid-as-billed. In August 2018, DHA personnel stated that they did not analyze TRICARE claims data to determine whether DHA should implement TRICARE maximum allowable reimbursement rates for certain types of services and equipment, such as compression devices and oral appliances. We request that the DHA Director provide comments to the final report on whether DHA will perform its own reviews on claims that were paid-as-billed.

e. Revise TRICARE policy to incorporate wording regarding reasonable cost and being a prudent buyer similar to the related clauses in 42 CFR 405.502 and CMS Publication 15-1, "Provider Reimbursement Manual."

Defense Health Agency Comments

The DHA Director agreed with the recommendation, stating that DHA is developing options for further guidance to contractors, to include consideration of Medicare definitions and guidance regarding excessive charges. The Director stated that these changes may require rulemaking which would take about 3 years with an estimated completion date of January 1, 2023.

The Director also stated that DHA has reminded the TRICARE region contractors of their responsibilities to guard against abusive and excessive charges, as defined by 32 CFR 199.9, which is incorporated into the contracts.

Our Response

Comments from the Director addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once DHA provides the additional guidance it develops for its contractors relating to excessive costs.

f. Revise TRICARE reimbursement methodologies to align with the Medicare program, when practicable, and establish a process to identify future changes to Medicare reimbursement methodologies.

Defense Health Agency Comments

The DHA Director agreed with the recommendation, stating that DHA regularly reviews Medicare reimbursement methodologies and issues regular updates to reimbursement systems. The Director also stated that DHA issues regulations through the public rulemaking process to adopt new Medicare reimbursement methodologies. For example, the Director stated that TRICARE adopted Medicare reimbursement methodologies for long-term care hospitals and inpatient rehabilitation facilities in 2018.

Our Response

Comments from the Director addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once DHA provides support that shows DHA continues to align its reimbursement methodologies with the Medicare program in FY 2020.

g. Seek voluntary refunds from TRICARE providers where DHA paid more than other pricing benchmarks identified in this report.

Defense Health Agency Comments

The DHA Director disagreed with the recommendation, stating that DHA would only recoup on payments that were erroneous. The Director stated that providers would not agree to voluntary refunds without a legal basis and that voluntary refunds are not realistic or enforceable if payments were paid according to the contract.

Our Response

Comments from the Director addressed the recommendation; however, we disagree with the Director's response. Therefore, the recommendation is unresolved. While we agree with DHA that there may be no legal basis to force a company to refund the money, some providers billed as much as seven times the amount that other providers billed for the same health care equipment. As a result of a previous audit report by the DoD OIG with a similar recommendation, the DoD recovered $16 million from a voluntary refund by a contractor. DHA should take all available corrective actions, including but not limited to, seeking voluntary refunds of excessive payments from these providers. We request that the DHA Director reconsider DHA's position not to seek voluntary refunds.

Management Comments on Potential Monetary Benefits

The DHA Director did not respond to the potential monetary benefits in the report. We request that the DHA Director provide comments on potential monetary benefits.

Appendix A

Scope and Methodology

We conducted this performance audit from March 2018 through June 2019 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.

Review of Documentation and Interviews

We interviewed DHA officials responsible for managing the TRICARE program and providing oversight of the TRICARE East and West Region contractors. We also interviewed TRICARE East and West Region contractor personnel responsible for managing health care support and claims processing for the two TRICARE regions within the United States.

We reviewed the following laws and guidance for the TRICARE program.

- Section 1079, title 10, United States Code, 2010
- Public Law 101-511, "Defense Appropriations Act for Fiscal Year 1991," section 8012, November 5, 1990
- Title 32 Code of Federal Regulations section 199.9, "Administrative Remedies for Fraud, Abuse, and Conflict of Interest" (2005)
- TRICARE Policy Manual 6010.60-M, April 1, 2015
- TRICARE Reimbursement Manual 6010.58-M, February 1, 2008
- TRICARE Reimbursement Manual 6010.61-M, April 1, 2015

We also reviewed the following laws and guidance for the Medicare program.

- Title 42 Code of Federal Regulations section 405.502, "Criteria for determining reasonable charges" (2011)
- CMS Publication 15-1, "Provider Reimbursement Manual"
- CMS Publication 100-04, Medicare Claims Processing Manual, chapter 3, "Inpatient Hospital Billing"

We used the Military Health System Data Repository to identify all paid-as-billed claims for health care services and equipment provided to beneficiaries in the TRICARE North, South, and West Regions in 2017. We created two datasets for further analysis: (1) a dataset that contained all vaccines (CPT 90476 through 90749) and contraceptive systems (HCPCS J7297 through J7307), and (2) all other paid-as-billed claims, including DME and stem cell acquisition. We selected the three highest DME procedure codes (HCPCS E0676, E0486, and E1399) and the organ/stem cell acquisition procedure code (HCPCS C9899) because of the high claim costs to determine whether DHA paid more than necessary for the health care services and equipment.

We provided the TRICARE East and West Region contractors with the opportunity to review and comment on relevant portions of the draft report.

Calculation Methodology for Vaccines

To determine whether DHA paid more for vaccine claims, we compared the amounts that DHA paid for vaccines to vaccine manufacturer rates published by the CDC. For example, if DHA paid $300 for the GARDASIL9 vaccine, we calculated that DHA paid $95.13 more than necessary by deducting the vaccine manufacturer rate of $204.87. We did not calculate an underpayment if DHA paid less than the vaccine manufacturer rate because TRICARE policy is to pay the lesser of the amount billed or the price control amount in instances where a price control exists.

Calculation Methodology for Contraceptive Systems

To determine whether DHA paid higher prices for contraceptive system claims, we compared the amounts that DHA paid for contraceptive systems to the highest Medicaid reimbursement rate for each type of contraceptive system, as shown in Table 1. For example, if DHA paid $2,000 for the Mirena IUD, we calculated that DHA paid $909.28 more than necessary by deducting the highest Medicaid rate of $1,090.72.

Calculation Methodology for DME and Stem Cell Acquisition

To demonstrate that DHA paid more for services other than vaccines and contraceptive systems, we used the Military Health System Data Repository to identify the highest paid categories of TRICARE services and equipment that were paid-as-billed. We selected the three highest DME procedure codes (HCPCS E0676, E0486, and E1399) and the organ/stem cell acquisition procedure code (HCPCS C9899) because of the high claim costs.

To calculate whether DHA paid higher prices for other examples of these health care services and equipment, we (1) conducted unannounced site visits to TRICARE providers to obtain supporting medical documentation for nonstatistically selected claims, and (2) used the following methodology to determine whether DHA paid more than necessary.

- **Comparison of TRICARE Payments to Retail Prices of Other DME Suppliers**. We nonstatistically selected claims from a TRICARE DME supplier for which DHA paid high amounts for intermittent limb compression devices (HCPCS E0676). We contacted device manufactures and researched prices offered by other DME suppliers for the same product, then calculated the difference between the amount that DHA paid and the highest researched amount offered by a different supplier. We selected the highest amount identified during our research to present a conservative calculation when determining the amount that DHA paid more necessary.
- **Comparison of TRICARE Payments to Medicare Prices**. We nonstatistically selected claims from a TRICARE dental provider for which DHA paid high amounts for oral appliances that treat obstructive sleep apnea syndrome. We obtained Medicare claims documentation that showed the amounts billed, allowed, and paid by the Medicare program for oral appliances provided by the same dental provider. We calculated the differences between the amounts that DHA allows and the amounts the Medicare program allows.
- **Comparison Using Medicare Methodologies**. TRICARE claims data showed that a TRICARE hospital billed more than $400,000 for HCPCS code C9899, but did not provide any details regarding the procedure. However, TRICARE guidance showed that DHA uses this HCPCS code to classify organ and stem cell acquisition. We obtained medical documentation from the hospital that detailed the claim was submitted solely for the acquisition of two units of umbilical cord blood stem cells. We researched Medicare reimbursement methodology to determine what DHA would have paid if DHA had used the Medicare methodology.

Use of Computer-Processed Data

We used electronic claims data from the Military Health System Data Repository to identify payments for paid-as-billed claims to determine whether the DoD paid more than necessary for vaccines and contraceptive systems.

To assess the reliability of the claims data from the Military Health System Data Repository, we compared the paid amounts obtained from TRICARE explanations of benefits, TRICARE summary payment vouchers, and other payment documentation to the respective paid amounts within the Military Health System Data Repository. Specifically, we randomly sampled 50 claim line items that were processed by the TRICARE North, South, and West Region contractors. None of our sample items failed the data quality test; therefore, we concluded that the paid amounts in the Military Health System Data Repository were reliable.

Use of Technical Assistance

We obtained support from the DoD Office of Inspector General (OIG) Quantitative Methods Division in developing a random sample of claims to test the reliability of the computer processed data.

Prior Coverage

During the last 5 years, the DoD OIG issued one report evaluating DHA controls over paid-as-billed TRICARE services and equipment. Unrestricted DoD OIG reports can be accessed at http://www.dodig. mil/reports.html/.

DoD OIG

Report No. DODIG-2018-108, "TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts," April 25, 2018

> The DoD OIG determined that DHA did not require contractors for the three TRICARE regions to use only suppliers that had fixed reimbursement rates for breast pumps and replacement parts. As a result, DHA overpaid $16.2 million for standard electric breast pumps and replacement parts provided to TRICARE beneficiaries in all three TRICARE regions in 2016.

Appendix B

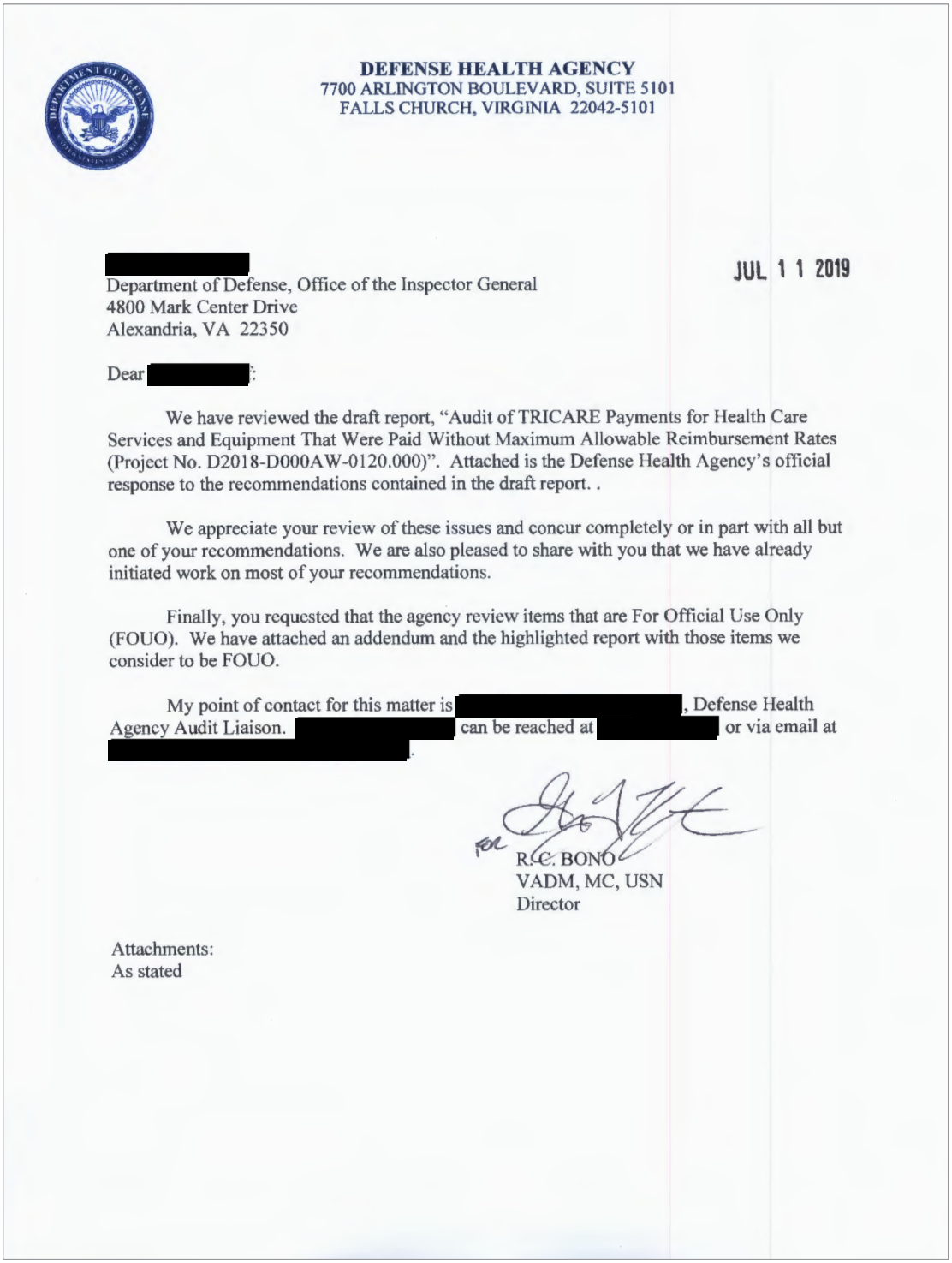
Summary of Potential Monetary Benefits

Recommendation	Type of Benefit	Amount of Benefit	Account
1.a	Economy and Efficiency. Reduces costs for future requirements by ensuring that DHA pays reasonable prices for vaccines and contraceptive systems.	Funds could be put to better use of $19.5 million for FYs 2020-24.	97X0130
1.b, 1.c, 1.d, 1.e, 1.f, 1.g	Economy and Efficiency. Reduces costs for future requirements by ensuring that DHA pays reasonable prices for TRICARE services and equipment.	Undeterminable. Amount is subject to additional price controls and changes in payment methodologies.	97X0130

Source: The DoD OIG.

Management Comments

Defense Health Agency



DEFENSE HEALTH AGENCY
7700 ARLINGTON BOULEVARD, SUITE 5101
FALLS CHURCH, VIRGINIA 22042-5101

[redacted]
Department of Defense, Office of the Inspector General
4800 Mark Center Drive
Alexandria, VA 22350

JUL 1 1 2019

Dear [redacted]:

We have reviewed the draft report, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates (Project No. D2018-D000AW-0120.000)". Attached is the Defense Health Agency's official response to the recommendations contained in the draft report. .

We appreciate your review of these issues and concur completely or in part with all but one of your recommendations. We are also pleased to share with you that we have already initiated work on most of your recommendations.

Finally, you requested that the agency review items that are For Official Use Only (FOUO). We have attached an addendum and the highlighted report with those items we consider to be FOUO.

My point of contact for this matter is [redacted], Defense Health Agency Audit Liaison. [redacted] can be reached at [redacted] or via email at [redacted].

for R.C. BONO
VADM, MC, USN
Director

Attachments:
As stated

Defense Health Agency (cont'd)

DEFENSE HEALTH AGENCY
7700 ARLINGTON BOULEVARD, SUITE 5101
FALLS CHURCH, VIRGINIA 22042-5101

DEFENSE HEALTH AGENCY RESPONSE TO DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT RECOMMENDATIONS

Recommendation #1.a: "Identify the reasons why TRICARE region contractors did not use existing TRICARE maximum allowable reimbursement rates, and take immediate actions to confirm that TRICARE claims for vaccines and contraceptive systems are paid using the TRICARE maximum allowable reimbursement rates. Further, the DHA Director should recoup overpayments where the TRICARE contractors did not use existing TRICARE maximum allowable reimbursement rates." Financial impact: $19.5 million.

DHA Response: Concur. The DHA will complete the following three step approach by July 15, 2020 (planned): (1) Determine reasons; (2) Confirm they are now applying existing reimbursement rates versus billed; and (3) Recoup where appropriate.

Recommendation #1.b: "Determine whether TRICARE region contractors did not apply TRICARE maximum allowable reimbursement rates to health care services, other than just vaccines and contraceptive systems."

DHA Response: Concur. The DHA agrees with pressing the TRICARE regional contractors for this information. The impact of 1a and 1b can only be determined with more information concerning the volume of claims involved. Planned completion date is July 15, 2020.

Recommendation #1.c: "Conduct a review to determine whether DHA should adopt vaccine manufacturer rates as reported by the Center for Disease Control and Prevention (CDC) when reimbursing TRICARE claims for vaccines. If adopted, DHA should regularly update rates to stay current with the vaccine manufacturer rates as reported by the CDC."

DHA Response: Concur. The DHA initiated a review of reimbursement policy in 2018 for certain vaccines, and expects to finalize recommendations and future approach to pricing of certain pediatric and other vaccines by the end of Calendar Year (CY) 2019 (planned). TRICARE is statutorily obligated to reimburse like Medicare, where practicable, which is consistent with current policy regarding pricing of vaccinations. Utilizing CDC pricing represents a deviation from Medicare pricing methodology, and requires review, analysis, and approval by the Director, DHA.

Recommendation #1.d: "Conduct annual reviews to identify health care services, supplies, and equipment for which TRICARE paid higher prices, and establish and implement new TRICARE maximum allowable reimbursement rates accordingly."

Defense Health Agency (cont'd)

DHA Response: Concur. The TRICARE Health Plan currently reviews, annually, procedures and treatments without established CHAMPUS Allowable Charge rates to determine if a rate should be calculated in accordance with existing TRICARE Policy (see the TRICARE Reimbursement Manual, Chapter 5). This review generally occurs during the first six months of the calendar year.

Recommendation #1.e: "Revise TRICARE policy to incorporate wording regarding reasonable cost and being a prudent buyer similar to the related clauses in 42 Code of Federal Regulations (CFR) 405.502 and Centers for Medicare and Medicaid Services Publication 15-1, "Provider Reimbursement Manual."

DHA Response: Concur. TRICARE defines abusive and excessive charges in 32 CFR 199.9, which is incorporated into the contracts. Contractors have been further reminded of their responsibilities with respect to guarding against abusive and excessive charges. DHA is developing options for further guidance to contractors, to include consideration of Medicare definitions and guidance regarding excessive charges. However, rulemaking may be required. If rulemaking is required, the process will take approximately 36 months (planned: January 1, 2023).

Recommendation #1.f: "Revise TRICARE reimbursement methodologies to align with the Medicare program, and establish an annual process to identify recent changes to Medicare reimbursement methodologies."

DHA Response: Concur. The DHA regularly reviews Medicare reimbursement methodologies and issues regular updates to reimbursement systems, and issues regulations through the public rulemaking process to adopt new Medicare reimbursement methodologies. For example, TRICARE adopted Medicare reimbursement methodologies for Long Term Care Hospitals and Inpatient Rehabilitation Facilities in 2018. Routine updates occur for existing systems, annually (actual date depends on the system in question). New systems are adopted following the public rulemaking process, which can take 36 months or longer. Rules are published in the federal register, in accordance with DOD guidance and the Administrative Procedures Act.

Recommendation #1.g: "Seek voluntary refunds from TRICARE providers where DHA paid more than other pricing benchmarks identified in this report."

DHA Response: Non-Concur. If payments were erroneous, we would want the contractors to recoup on those claims. If payments were paid according to the contract, the idea of voluntary payments is not realistic or enforceable. No provider would agree to this without a legal basis.

2

Acronyms and Abbreviations

CDC	Centers for Disease Control and Prevention
CFR	Code of Federal Regulations
CMAC	Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) Maximum Allowable Charge
CMS	Centers for Medicare & Medicaid Services
CPT	Current Procedural Terminology
DHA	Defense Health Agency
DME	Durable Medical Equipment
DMEPOS	Durable Medical Equipment, Prosthetics, Orthotics, and Supplies
HCPCS	Healthcare Common Procedure Coding System
HPV	Human Papillomavirus
IUD	Intrauterine Device

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