



State of New Jersey

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Final Audit Report Schwarz Medical Provider ID [REDACTED]

Background

As part of its oversight of the Medicaid program, the Medicaid Fraud Division (MFD) of the Office of the State Comptroller (OSC) selected Durable Medical Equipment (DME) providers for audit. Schwarz Medical, a DME provider located in Union, New Jersey, was selected by OSC for review. Schwarz Medical enrolled in the Medicaid program effective March 2, 1981. Schwarz Medical services patients of all ages and is in the business of supplying complex wheelchairs, highly configurable manual wheelchairs, adaptive seating and positioning systems, and other specialized equipment such as standing frames and gait trainers. This equipment is prescribed and customized to meet the specific medical and functional needs of patients with disabilities and serious medical conditions such as cerebral palsy, muscular dystrophy, multiple sclerosis, spina bifida and other spinal cord injuries.

Schwarz Medical is a related party to Schwarz Rehab Equipment, Inc. d/b/a/, Delmar Designs, by a common owner. Schwarz Medical purchased custom manufactured products from Delmar Designs for the recipients in our sample.

A Surveillance Utilization Review System (SURS) case review performed by the MFD data mining unit preliminarily revealed that Schwarz Medical billed claims using miscellaneous "junk" Healthcare Common Procedure Coding System (HCPCS) codes E1399 and K0108, instead of established procedure codes. During the audit period referenced in our scope, we examined the claims submitted by Schwarz Medical.

Objective:

The Medicaid program pays for prescribed DME in accordance with N.J.A.C. 10:59. The objective of this audit is to examine claims and claim reporting procedures for Schwarz Medical DME – provider ID [REDACTED]

Scope:

The scope of the OSC audit was originally limited to a review of paid claims totaling \$500 or more for durable medical equipment HCPCS code E1399 - Durable Medical Equipment, Not Other, and durable medical equipment HCPCS code K0108 - Other Accessories. Our initial sample population was comprised of 137 recipients with 359 claims totaling \$964,197 for the period beginning the second quarter of 2007 through the first quarter of 2010. We reviewed items totaling \$307,908 from 155 paid claims during this period. Also, we mailed confirmations to manufacturers within that sample, as appropriate. Based on our initial audit findings the scope was expanded and all paid E1399 and K0108 paid claims from the second quarter 2007 through the second quarter of 2010 were included. The audit was conducted under the authority of the *Medicaid Program Integrity and Protection Act* (N.J.S.A. § 30:4D-53 *et seq.*) and N.J.S.A. § 52:15C-23.

Below is a summary of total Medicaid paid or adjusted fee for service claims for the period July 1, 2007 through June 30, 2010:

Provider Name	Provider ID	Total Claims	Total Paid Claims
Schwarz		7047	\$7,512,920

AUDIT FINDING

1. Finding

OSC could not validate costs and/or purchases for 209 paid claims for DME HCPCS K0108 and E1399 purchased by or on the behalf of Schwarz Medical for Medicaid recipients in our sample totaling \$210,363. This amount, when extrapolated over the HCPCS E1399 and K0108 universe for the period audited, resulted in a total overpayment of \$1,481,617. Per N.J.A.C. 10:49 – 9.8 (b) 3, providers agree that where records do not document the extent of services billed, payment adjustments shall be necessary.

Recommendation

We recommend that Schwarz Medical reimburse the State of New Jersey a total of \$1,481,617 for claims where the records did not fully document the extent of services billed. Additionally, Schwarz Medical and related entities should strengthen their internal control practices with regard to DME purchases for Medicaid recipients. Particular attention should be given to the establishment of an inventory management system which would minimize accounting and billing errors and delineate substituted, returned, unused, damaged or obsolete DME supplies.

The provider should establish and implement a compliance program. This program would assist the provider, suppliers of DME, their agents and subcontractors in developing effective internal controls while providing quality items, service and care to patients. The compliance program should be commensurate with the size, complexity and nature of operations of the provider and should follow the US Department of Health and Human Services, Office of Inspector General (HHS OIG) compliance standards for DME companies. In addition, we recommend the provider establish policies and procedures, standards of conduct, a training program, perform self audits and disciplinary action. The program is intended to foster compliance with established standards, reduce waste, improve efficiency in management and operation of the DME and reduce cost of services.

Response:

Schwarz Medical disagreed with the audit finding for several reasons, including the interpretation of the law, the extrapolation methodology, and the evaluation of the documentation submitted. In addition, the provider noted that contrary to the last sentence in our finding, they do not agree *“that where records do not fully document the extent of services billed, payment adjustments shall be necessary.”* The provider believes that OSC has misunderstood Schwarz Medical's position on this issue. While the provider appreciated OSC's recommendations regarding its internal control practices and inventory management systems, the provider did not think it would have been helpful under the circumstances.

Conclusion:

OSC has determined that Schwarz Medical owes the State a total of \$1,481,617. Invoice testing and extrapolation were based on factual data and not subject to nuances associated with the interpretation of the law with regard to the audit's validation of proof of purchase for components of customized wheelchairs. In addition, the level of unreliable data (error rate) revealed by OSC's invoice testing indicates that internal controls are nonexistent or weak; therefore, our internal control recommendations to this provider remain unchanged.

Potential for Cost Savings:

In addition to the Medicaid reimbursement requested in this report, the audit determined that DMAHS should give particular attention to Provider Enrollment Applications, business credentialing, timely system upgrades and the establishment of a standard payment methodology for this type of specialized DME. These measures could result in potential cost savings to the Medicaid program. For example, if DMAHS adapts a payment methodology of 130% of the manufacturer's wholesale invoice, an annual cost savings of approximately \$230,000 would be realized for this provider.