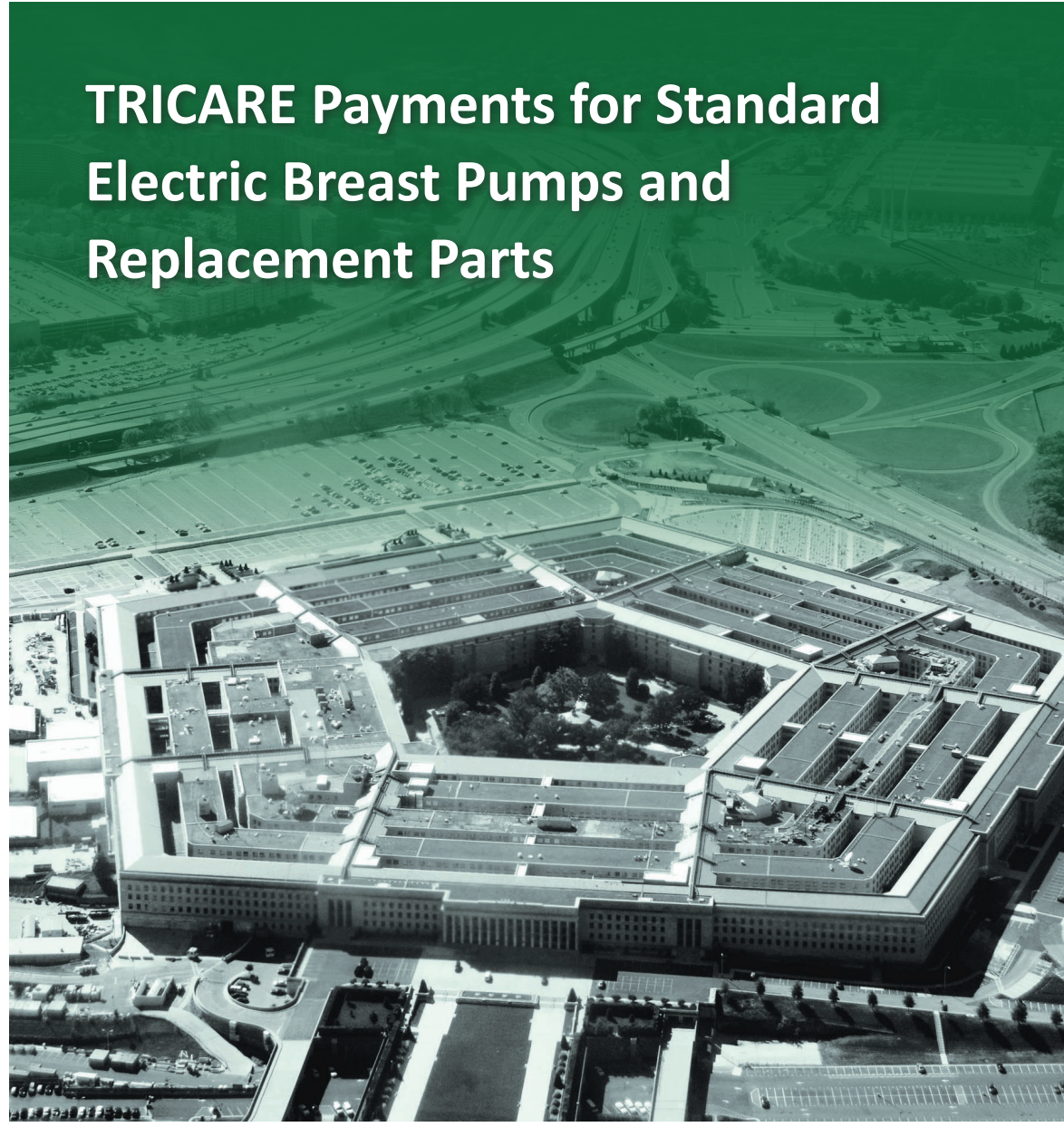


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# INSPECTOR GENERAL

*U.S. Department of Defense*

APRIL 25, 2018



## TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts

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INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts*

April 25, 2018

### Objective

We determined whether the DoD paid reasonable prices for standard electric breast pumps and replacement parts provided to beneficiaries in the TRICARE North, South, and West Regions in 2016.

### Background

The Defense Health Agency (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. In the United States, the TRICARE program is divided into the North, South, and West health service regions (referred to in our report as the three TRICARE regions). The DHA awarded contracts to three contractors to manage health care support and claims processing for the three TRICARE regions.

(FOUO) To determine whether the DHA overpaid for breast pumps, we compared the amounts the DHA paid to the fixed reimbursement rate of [REDACTED]. We used this reimbursement rate because the contractor in the TRICARE West region negotiated with three national suppliers to obtain fixed reimbursement rates of [REDACTED] or less for eight different breast pump models. Furthermore, the TRICARE North and South regions may have been able to obtain similar rates because two of these three national suppliers also provided breast pumps to beneficiaries in the TRICARE North and South regions in 2016.

### Background (cont'd)

In addition, to determine whether the DHA overpaid for replacement parts, we compared the amounts the DHA paid to reimbursement rates paid by Medicaid, which is funded jointly by states and the U.S. Government. We used the highest Medicaid rates across six states. According to DHA personnel, none of the three TRICARE regional contractors negotiated fixed reimbursement rates with suppliers for replacement parts.

### Findings

We concluded that the DHA overpaid for standard electric breast pumps and replacement parts for beneficiaries in the three TRICARE regions in 2016. Specifically, the DHA overpaid for:

- 54,006 of 59,241 breast pumps (91.2 percent); and
- 380,911 of 671,112 replacement parts (56.8 percent).

This occurred because the 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, we calculated that the DHA overpaid \$16.2 million for standard electric breast pumps and replacement parts provided to TRICARE beneficiaries in all three TRICARE regions in 2016. If the DHA continues its current practice, and prices and volume stay the same, the DHA could overpay an additional \$81.2 million over the next 5 years.

### Recommendations

We recommend that the DHA Director:

- Use only suppliers that have entered into agreements that have fixed reimbursement rates to provide standard electric breast pumps and replacement parts throughout all TRICARE regions.
- To the extent practicable, review and pursue appropriate action, such as recouping any overpayments from the suppliers that billed excessive amounts for breast pumps and replacement parts.



# Results in Brief

## *TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts*

### Management Comments and Our Response

The DHA Director agreed with our finding, but only partially agreed with our recommendation to negotiate fixed rates for breast pumps and parts. The DHA Director stated that the implementation of a fixed rate for breast pumps and parts is a necessary step and the DHA is in the preliminary phases of establishing these maximum allowable rates. The DHA Director also stated that DHA contractors could then apply additional discounts for their network providers. The DHA Director stated that the DHA wants to allow beneficiaries to continue to have access to out-of-network providers and retail environments for the purchases of these items with reasonable cost controls. Therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify that the DHA has established maximum allowable rates for breast pumps and replacement parts that prevent suppliers from overbilling the DoD.

### *Management Comments and Our Reponse (cont'd)*

The DHA Director agreed with our recommendation to review and pursue appropriate action, such as recouping any overpayments from suppliers that billed excessive amounts for breast pumps and replacement parts, stating that the TRICARE West Region contractor was successful in recouping \$718,559.20 to date from one supplier. Therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify that the DHA took appropriate action, such as recouping any overpayments from other suppliers that billed excessive amounts for breast pumps and replacement parts.

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, Defense Health Agency	None	1.a, 1.b	None

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**

April 25, 2018

MEMORANDUM FOR DIRECTOR, DEFENSE HEALTH AGENCY

SUBJECT: TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts  
(Report No. DODIG-2018-108)

We are providing this report for your review. We conducted this audit in accordance with generally accepted government auditing standards.

We considered the Defense Health Agency and its contractors' comments on the draft of this report when preparing the final report. Comments from the Director, Defense Health Agency, addressed all specifics of the recommendations and conformed to the requirements of DoD Instruction 7650.03.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187.

A handwritten signature in black ink, reading "Michael J. Roark".

Michael J. Roark  
Assistant Inspector General  
Readiness and Global Operations

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# Introduction

## Objective

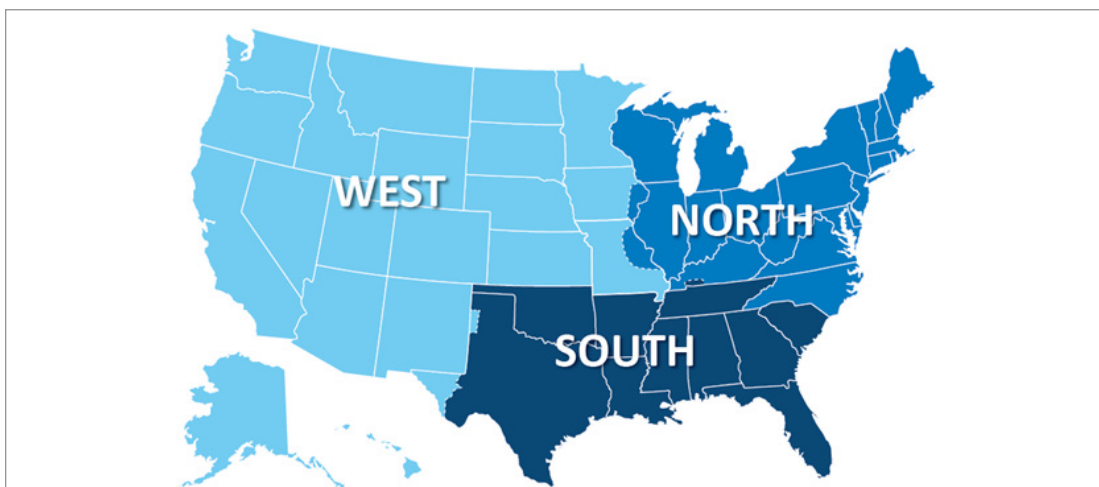
We determined whether the DoD paid reasonable prices for standard electric breast pumps and replacement parts from suppliers in the TRICARE program. The audit initially focused on payments the Defense Health Agency (DHA) made to selected suppliers for breast pumps for beneficiaries in the TRICARE West region in 2016. However, TRICARE claims data indicated that the DHA may have also overpaid suppliers in other regions. As a result, we expanded our review to determine whether the DHA overpaid suppliers for breast pumps and replacement parts in the TRICARE North, South, and West Regions in 2016. See Appendix A for the scope and methodology.

## Background

### ***Defense Health Agency and the TRICARE Program***

The 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. In the United States, the TRICARE program is divided into the North, South, and West health service regions (referred to in our report as the three TRICARE regions). The DHA awarded contracts to three contractors to manage health care support and claims processing for the three TRICARE regions. Figure 1 shows the TRICARE regions in the United States.

*Figure 1. TRICARE Regions in the United States*

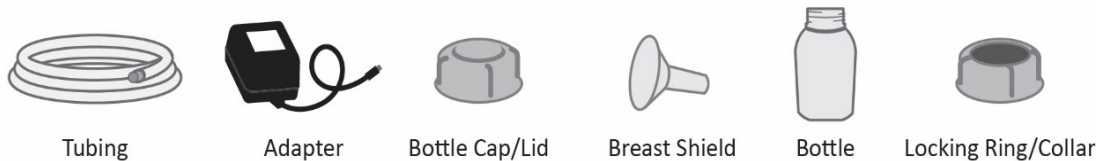


Source: The DoD Office of Inspector General (DoD OIG).

## TRICARE Coverage of Breast Pumps

In December 2014, Public Law authorized the DHA to pay for manual and standard electric breast pumps and replacement parts.<sup>1</sup> The DHA implemented a policy, effective December 19, 2014, allowing beneficiaries to obtain either one manual breast pump or one standard electric breast pump per birth event.<sup>2</sup> This policy also permits beneficiaries to receive breast pump replacement parts, including tubing, adapters, bottle caps, shields, bottles, and locking rings, as necessary for up to 36 months. Figure 2 shows examples of breast pump replacement parts the DHA is authorized to reimburse.

Figure 2. Examples of Breast Pump Replacement Parts



Source: The DoD OIG.

We reviewed payments for 59,241 standard electric breast pumps, valued at \$20.1 million, and 671,112 breast pump replacement parts, valued at \$8.1 million, provided to about 60,000 beneficiaries in the three TRICARE regions in 2016. Table 1 shows the amount the DHA paid for the breast pumps and replacement parts it provided to TRICARE beneficiaries in 2016.

Table 1. Amount Paid for Breast Pumps and Replacement Parts Provided in 2016

Breast Pumps and Replacement Parts (Procedure Code)	Number	Amount Paid
Standard Electric Breast Pumps (E0603)	59,241	\$20,130,742
<b>Subtotal for Breast Pumps</b>	<b>59,241</b>	<b>\$20,130,742</b>
Tubing (A4281)	68,992	\$1,194,243
Adapter (A4282)	35,168	\$602,983
Bottle Caps (A4283)	142,390	\$1,305,860
Shields (A4284)	96,020	\$1,955,539
Bottles (A4285)	259,093	\$2,208,755
Locking Rings (A4286)	69,449	\$869,327
<b>Subtotal for Parts</b>	<b>671,112</b>	<b>\$8,136,707</b>
<b>Totals</b>	<b>730,353</b>	<b>\$28,267,449</b>

Source: Military Health System Data Repository, as of May 2017.

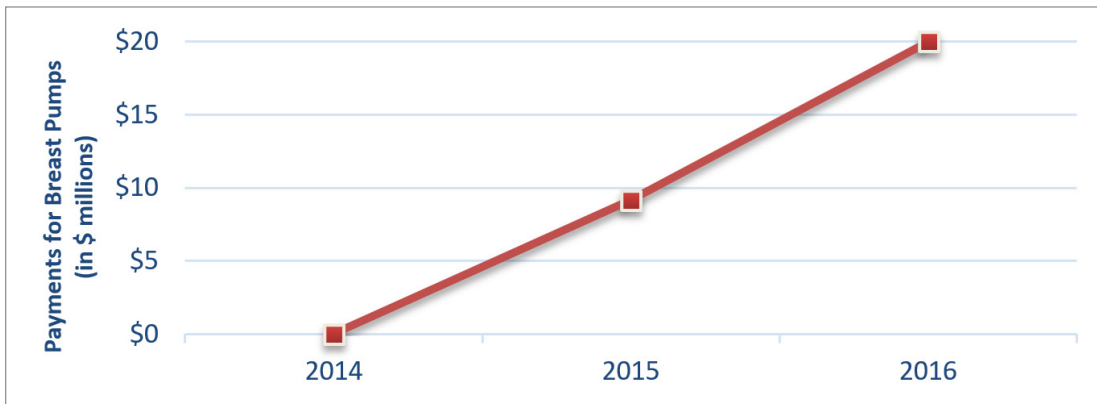
<sup>1</sup> Public Law 113-291, "Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for 2015," December 19, 2014.

<sup>2</sup> TRICARE Policy Manual 6010.57-M, chapter 8, section 2.6, "Breast Pumps, Breast Pump Supplies, And Breastfeeding Counseling," February 1, 2008.

### ***Increases in Payments for Breast Pumps and Parts***

TRICARE payments for standard electric breast pumps and replacement parts rose substantially from 2014 to 2016 throughout the TRICARE program. Specifically, the DHA paid \$12,622 for 57 standard electric breast pumps provided to TRICARE beneficiaries in the three TRICARE regions in 2014. However, after implementation of the Federal statute, the amount paid increased to \$20.1 million for 59,241 breast pumps provided in 2016, as shown in Figure 3.<sup>3</sup>

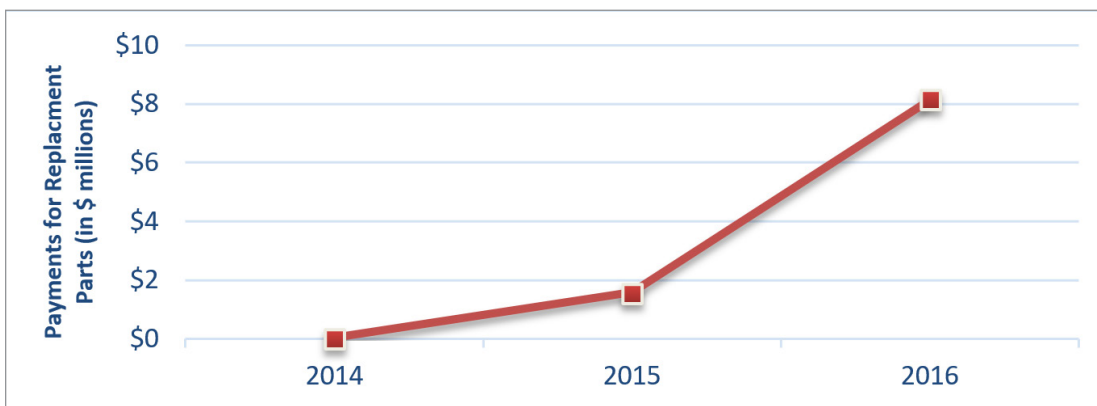
*Figure 3. Increase in Payments for Standard Electric Breast Pumps*



Source: Military Health System Data Repository, as of May 2017.

Furthermore, the DHA paid \$33,210 for 1,593 breast pump replacement parts provided to beneficiaries in the three TRICARE regions in 2014. However, after implementation of the Federal statute, the amount paid increased to \$8.1 million for 671,112 replacement parts provided in 2016, as shown in Figure 4.

*Figure 4. Increase in Payments for Replacement Parts*



Source: Military Health System Data Repository, as of May 2017.

<sup>3</sup> Public Law 113-291, "Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for FY 2015," December 19, 2014.

## ***Defense Health Agency Reimbursement Methodologies***

The DHA reimburses medical procedures, services, and supplies using various reimbursement methodologies to establish maximum reimbursement rates to ensure that payments are reasonable. However, the DHA did not implement maximum reimbursement rates for breast pumps and replacement parts. Instead, the DHA paid the amount that the suppliers billed for the breast pumps and replacement parts unless the TRICARE regional contractor had a negotiated rate with the suppliers.

### ***Reimbursement of Breast Pumps***

(FOUO) To determine whether the DHA overpaid for breast pumps, we compared the amounts the DHA paid to the fixed reimbursement rate of [REDACTED]. We used this reimbursement rate because the contractor in the TRICARE West region negotiated with three national suppliers to obtain fixed reimbursement rates of [REDACTED] or less for eight different breast pump models.<sup>4</sup> The TRICARE North and South Regions may have been able to obtain fixed reimbursement rates of about [REDACTED] because two of these three national suppliers also provided breast pumps to beneficiaries in the TRICARE North and South regions in 2016.

### ***Reimbursement of Replacement Parts***

To determine whether the DHA overpaid for replacement parts, we compared the amounts paid by the DHA to Medicaid rates.<sup>5</sup> According to DHA personnel, none of the three TRICARE regional contractors negotiated fixed reimbursement rates with suppliers for replacement parts. We reviewed the online Medicaid websites for all 50 states to determine the amounts that the Medicaid program paid for replacement parts. Six states published online Medicaid rates for breast pump replacement parts. Table 2 shows the reimbursement rates Medicaid paid for each replacement part (procedure codes A4281-A4286) in these states.

<sup>4</sup> (FOUO) The TRICARE West Region contractor negotiated a [REDACTED] fixed reimbursement rate with two suppliers and a [REDACTED] fixed reimbursement rate with one supplier to provide standard electric breast pumps.

<sup>5</sup> 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 U.S. Government, according to the Centers for Medicare & Medicaid Services. We compared the amount the DHA paid to Medicaid rates because they are both managed and funded by Government entities. We could not compare amounts the DHA paid to retail stores because retail stores often sold parts as a package and not individually.

*Table 2. Highest Medicaid Reimbursement Rates for Replacement Parts Used for Comparing Amounts Paid by the DHA*

Replacement Part	No. of States with Online Published Medicaid Rates	Lowest to Highest Medicaid Rates
Tubing (A4281)	6	\$2.67 to \$7.50
Adapter (A4282)	5	\$0.53 to \$16.00
Bottle Caps (A4283)	6	\$0.68 to \$2.80
Shields (A4284)	6	\$1.83 to \$17.25
Bottles (A4285)	5	\$2.87 to \$6.62
Locking Rings (A4286)	5	\$0.22 to \$4.31

Source: Medicaid online-published fee schedules for Colorado, Idaho, Michigan, New Hampshire, Texas, and Wyoming.

## 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.<sup>6</sup> We identified internal control weaknesses over the DHA's payments for standard electric breast pumps and replacement parts. Specifically, the DHA did not have controls in place to ensure that the DHA only paid reasonable prices for standard electric breast pumps or replacement parts in the TRICARE program. We will provide a copy of the report to the senior official responsible for internal controls in the DHA.

<sup>6</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.



## Finding

### DHA Overpaid for Standard Electric Breast Pumps and Replacement Parts

The DHA overpaid for standard electric breast pumps and replacement parts for TRICARE beneficiaries in the three TRICARE regions in 2016. Specifically, the DHA overpaid for:

- 54,006 of 59,241 breast pumps (91.2 percent); and
- 380,911 of 671,112 replacement parts (56.8 percent).

This occurred because the 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, we calculated that the DHA overpaid \$16.2 million for standard electric breast pumps and replacement parts provided to TRICARE beneficiaries in all three TRICARE regions in 2016. If the DHA continues its current practice, and prices and volume stay the same, the DHA could overpay an additional \$81.2 million over the next 5 years.<sup>7</sup>

### DHA Overpaid for Breast Pumps

~~(FOUO)~~ The DHA overpaid for 54,006 of the 59,241 breast pumps (91.2 percent) provided to beneficiaries in the three TRICARE regions at rates that exceeded the existing [REDACTED] fixed reimbursement rate negotiated between the TRICARE West Region contractor and one of its suppliers. The TRICARE West Region contractor also negotiated a rate of [REDACTED] with two other national suppliers. However, the contractor only used these three national suppliers to provide 2,313 of the 59,241 breast pumps (3.9 percent) at or below the [REDACTED] or [REDACTED] rates in 2016. The TRICARE North and South Region contractors could not use these rates because they were negotiated between the TRICARE West Region contractor and the national suppliers. If the TRICARE North and South Region contractors had negotiated with these national suppliers, they may have been able to obtain the lower rates. Table 3 shows the amount the DHA paid per breast pump for all three regions in 2016.

<sup>7</sup> We identified overpayments of \$16.2 million for breast pumps and replacement parts provided in 2016. 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 estimated an additional \$81.2 million of funds could be put to better use over the following 5 years—at \$16.2 million per year—if the DHA implements the recommendation. See Appendix B for a summary of the potential monetary benefits.

Table 3. Range of Amounts Paid for Breast Pumps Provided in 2016

Range of Amount Paid per Pump	Number of Breast Pumps	Amount Paid	Percentage of Total Amount Paid
\$0 - \$99	1,078	\$58,099	0.3%
\$100 - \$199	11,965	\$1,857,743	9.2%
\$200 - \$349	31,781	\$9,122,154	45.3%
\$350 - \$499	7,781	\$3,134,603	15.6%
\$500 - \$749	3,484	\$1,859,674	9.2%
\$750 - \$999	491	\$390,959	1.9%
\$1000 +	2,661	\$3,707,511	18.4%
<b>Total</b>	<b>59,241</b>	<b>\$20,130,743</b>	

Note: Totals may not equal the actual sum because of rounding.  
Source: Military Health System Data Repository, as of May 2017.

The DHA paid more than \$1,000 per breast pump for 2,661 breast pumps, totaling \$3.7 million (18.4 percent of \$20.1 million total paid). The following are examples of claims for which the DHA paid a supplier more than \$1,000 for a breast pump.

DHA paid more than \$1,000 per breast pump for 2,661 breast pumps.

- ~~(FOUO)~~ The DHA paid \$1,400 to a supplier located in Pennsylvania for a “Medela Pump in Style Starter Set” breast pump, even though the TRICARE West Region contractor had an existing negotiated rate of [REDACTED] with a different supplier for the same breast pump.
- The DHA paid \$1,360 to a supplier located in Alaska for a “Medela Pump in Style Advanced On-the-go Tote” breast pump. The TRICARE West Region contractor did not have an existing negotiated rate with a supplier for this breast pump. However, Walmart stores and Military Base Exchange stores in Alaska sold the same breast pump for \$220.80 and \$279.00, respectively.<sup>8</sup> Figure 5 shows the differences between the amount the DHA paid and retail costs in Alaska for the same Medela breast pump.

<sup>8</sup> According to TRICARE Policy Manual 6010.57-M, Chapter 8, Section 2.6, “Breast Pumps, Breast Pump Supplies, And Breastfeeding Counseling,” if a beneficiary pays for a breast pump or supplies, the beneficiary may request reimbursement from the appropriate contractor. The beneficiary must submit an approved and properly completed claim form with a copy of the prescription for the breast pump and an itemized receipt.

Figure 5. Prices for Medela Pump in Style Advanced On-the-go Tote in Alaska



Source: The DoD OIG.

### DHA Overpaid for Replacement Parts

The DHA paid more than the highest reimbursement rate of Medicaid agencies for 380,911 of the 671,112 replacement parts (56.8 percent) it provided TRICARE beneficiaries in 2016. For example, the DHA paid \$138—or about 20 times more than the highest Medicaid reimbursement rate of \$6.62—for a single bottle provided by a supplier located in Washington in 2016. Table 5 shows the average reimbursement rates for replacement parts that the DHA paid compared to the highest rates paid by Medicaid in 2016, as well as examples in which the DHA paid much higher rates than the highest Medicaid reimbursement rates for replacement parts.<sup>9</sup>

DHA paid \$138—or about 20 times more than the highest Medicaid reimbursement rate of \$6.62—for a single bottle.

Table 5. DHA Paid More Than Highest Medicaid Rates for Replacement Parts in 2016

Replacement Part	Highest Medicaid Reimbursement Rate	TRICARE Average Amount Paid	TRICARE Parts Paid More Than Highest Medicaid Rates			Examples of TRICARE Payments That Exceeded Highest Medicaid Rates
			Number of Parts Paid Over Medicaid Rate	Total Number of TRICARE Parts	Percentage of TRICARE Parts Over Medicaid Rate	
Tubing (A4281)	\$7.50	\$17.31	67,064	68,992	97.2%	\$150 for a tube
Adapter (A4282)	\$16.00	\$17.15	13,095	35,168	37.2%	\$250 for an adapter

<sup>9</sup> The Medicaid rates used in the analysis were often higher than retail prices of the replacement parts, and the results therefore may be understated. For example, while the TRICARE average amount paid for breast shields was only \$3 more than the highest Medicaid rate of \$17, we found instances where well-known breast pump manufacturers sold breast shields for much less than the highest Medicaid rate. Specifically, Medela sold breast shields that were compatible with the Medela Pump in Style Advanced breast pump models for a retail price of \$9.99 each. The DHA paid prices that exceeded the \$9.99 retail price for 78,617 of the 96,020 breast shields, or 81.9 percent, provided to beneficiaries in the three TRICARE regions in 2016. Furthermore, breast pump suppliers may be able to obtain lower wholesale prices from the manufacturer for the same replacement parts, thereby possibly lowering costs to the DHA.

Replacement Part	Highest Medicaid Reimbursement Rate	TRICARE Average Amount Paid	TRICARE Parts Paid More Than Highest Medicaid Rates			Examples of TRICARE Payments That Exceeded Highest Medicaid Rates
			Number of Parts Paid Over Medicaid Rate	Total Number of TRICARE Parts	Percentage of TRICARE Parts Over Medicaid Rate	
Bottle Cap (A4283)	\$2.80	\$9.17	105,980	142,390	74.4%	\$236 for 3 bottle caps
Shield (A4284)	\$17.25	\$20.37	39,340	96,020	41.0%	\$79 for a shield
Bottle (A4285)	\$6.62	\$8.52	93,656	259,093	43.0%	\$138 for a bottle
Locking Ring (A4286)	\$4.31	\$12.52	61,776	69,449	90.0%	\$102 for a locking ring
<b>Totals</b>			<b>380,911</b>	<b>671,112</b>	<b>56.8%</b>	

Source: Data obtained from the Military Health System Data Repository, as of May 2017.

## DHA Did Not Require Negotiated Rates

The DHA overpaid for breast pumps and replacement parts because the DHA did not require TRICARE regional contractors to use only suppliers that entered into agreements that have reasonable, fixed reimbursement rates for breast pumps and replacement parts. TRICARE regional contractors rarely negotiated and used reasonable, fixed reimbursement rates for breast pumps and replacement parts with suppliers.

- The TRICARE North and South Region contractors did not negotiate fixed reimbursement rates with any suppliers, according to DHA personnel. TRICARE claims data shows that more than 400 suppliers provided breast pumps and replacement parts for beneficiaries in the TRICARE North and South Regions in 2016.
- Even though the TRICARE West Region contractor negotiated fixed reimbursement rates for breast pumps with three national suppliers, TRICARE claims data shows that more than 300 suppliers provided breast pumps and replacement parts for beneficiaries in the TRICARE West Region in 2016.

TRICARE regional contractors rarely negotiated and used reasonable, fixed reimbursement rates.

The DHA Director should use only suppliers that have fixed reimbursement rates to provide standard electric breast pumps and replacement parts throughout all TRICARE regions. Also, to the extent practicable, the DHA Director should review and pursue appropriate action, such as recouping any overpayments from the suppliers that billed excessive amounts for breast pumps and replacement parts.

## Without Effective Controls to Contain Costs, DHA Could Potentially Waste About \$100 Million

~~(FOUO)~~ According to our calculations, the DHA overpaid \$16.2 million for standard electric breast pumps and replacement parts provided to beneficiaries in the TRICARE North, South, and West Regions in 2016. The DHA paid \$12.2 million more for breast pumps than it would have if the DHA required the three TRICARE regional contractors to use suppliers with fixed negotiated rates for breast pumps, such as the [REDACTED] rate negotiated by the TRICARE West Region contractor. Additionally, we calculated that the DHA paid \$4 million more for breast pump replacement parts than it would have if it had used suppliers with rates comparable to the highest Medicaid rates published online by six states. If the DHA continues its current practice, and prices and volume stay the same, the DHA could overpay an additional \$81.2 million over the next 5 years, for a total of \$97.4 million in overpayments for breast pumps and replacement parts.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

**We recommend that the Director, Defense Health Agency:**

- a. Use only suppliers that have entered into agreements that have fixed reimbursement rates to provide standard electric breast pumps and replacement parts throughout all TRICARE regions.**

### ***Defense Health Agency Comments***

The DHA Director agreed with our finding, but only partially agreed with our recommendation. The DHA Director agreed that the implementation of a fixed rate for breast pumps and parts is a necessary step and stated that the DHA is in the preliminary phases of establishing these maximum allowable rates for the breast pumps and parts. The DHA Director estimated that the maximum allowable rates will be implemented within 12 to 18 months.



The DHA Director also stated that DHA contractors could then apply additional discounts for their network providers. The DHA Director stated that this would allow beneficiaries to continue to have access to out-of-network providers and retail environments for the purchases of these items with reasonable cost controls.

### *Our Response*

Comments from the DHA Director did address the intent of the recommendation; therefore, the recommendation is resolved. We will close the recommendation once we verify that the DHA has established maximum allowable rates for breast pumps and replacement parts that prevent suppliers from overbilling the DoD.

(FOUO) Nevertheless, we believe that the DHA should act towards achieving even greater savings by using suppliers that can obtain high-volume discounts on standard electric breast pumps. As stated in the report, the TRICARE West Region contractor negotiated with three national suppliers to obtain fixed reimbursement rates of [REDACTED] or [REDACTED] for eight different breast pump models.

- b. To the extent practicable, review and pursue appropriate action, such as recouping any overpayments from the suppliers that billed excessive amounts for breast pumps and replacement parts.**

### *Defense Health Agency Comments*

The DHA Director agreed with our recommendation, stating that the TRICARE West Region contractor was successful in recouping \$718,559.20 to date from one supplier.

### *Our Response*

Comments from the DHA Director addressed all specifics of the recommendation; therefore, the recommendation is resolved. We will close the recommendation once we verify that the DHA took appropriate action, such as recouping any overpayments from other suppliers that billed excessive amounts for breast pumps and replacement parts.

## **Management Comments on Potential Monetary Benefits**

Appendix C contains a summary of management comments on potential monetary benefits and our response.

## Appendix A

### Scope and Methodology

We conducted this performance audit from February 2017 through January 2018 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, Interviews, and Observations***

We interviewed and corresponded with officials from the DHA and three TRICARE regional contractors. We reviewed Public Law 113-291; Code of Federal Regulations; TRICARE Operations Manual 6010.57-M, chapter 8, section 2.6, “Breast Pumps, Breast Pump Supplies, And Breastfeeding Counseling,” February 1, 2008; and TRICARE Policy Manual 6010.60-M, chapter 8, section 2.6 “Breast Pumps, Breast Pump Supplies, And Breastfeeding Counseling,” April 1, 2015.

### ***Calculation of TRICARE Payments Above Existing Negotiated Rate for Breast Pumps***

~~(FOUO)~~ We identified that the TRICARE West Region contractor negotiated fixed reimbursement rates of [REDACTED] with two national suppliers and [REDACTED] with one national supplier for eight different standard electric breast pump models: Ameda Purely Yours, Ameda Purely Yours Ultra, Bellema, Freemie Freedom, Hygeia Q, Medela Pump in Style Advanced Starter Set, Spectra S2, and Spectra S9.

~~(FOUO)~~ We obtained TRICARE claims data from the Military Health System Data Repository for all standard electric breast pumps (procedure code E0603) provided to beneficiaries in the three TRICARE regions in 2016. We identified overpayments by calculating the difference between the highest fixed, negotiated reimbursement rate of [REDACTED] and the amounts that the DHA paid for each standard electric breast pump provided to beneficiaries in the three TRICARE regions in 2016. For example, the DHA paid \$1,500 for a breast pump, but the DHA would have only paid [REDACTED] for a breast pump if it had used a national supplier with this fixed reimbursement rate to supply a breast pump; we calculated this as an overpayment of [REDACTED]

### *Calculation of TRICARE Payments Above Highest Medicaid Reimbursement Rates for Replacement Parts*

We reviewed Medicaid websites for all 50 states and identified that 48 states had Medicaid fee schedules published online. Six of the 48 states published online rates for breast pump replacement parts, as shown in Table 2. We obtained TRICARE claims data from the Military Health System Data Repository for all replacement parts (procedure codes A4281-A4286) provided to beneficiaries in the three TRICARE regions in 2016. To identify potential overpayments, we calculated the difference between the amount that the DHA paid for each replacement part and the highest reimbursement rate that Medicaid paid for the same part. For example, the DHA paid \$138.40 for a replacement bottle, but the DHA would have only paid \$6.62 if the DHA had implemented a reimbursement rate similar to the highest Medicaid reimbursement rate. We calculated this as an overpayment of \$131.78.

### **Use of Computer-Processed Data**

We used electronic claims data from the Military Health System Data Repository to identify payments for standard electric breast pumps and replacement parts provided to beneficiaries in the three TRICARE regions in 2016.

To assess the reliability of the claims data provided from the Military Health System Data Repository, we compared the paid amounts on TRICARE's explanation of benefits to the respective paid amounts within the Military Health System Data Repository. Specifically, we statistically sampled 45 of 167,280 claim line items that were processed by the TRICARE North, South, and Overseas contractors, and we statistically sampled 44 of 749 claim line items that were processed by the TRICARE West Region contractor for two of its highest paid suppliers. 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 OIG Quantitative Methods Division in developing the statistical sample of breast pump claims to test the reliability of the computer processed data.

### **Prior Coverage**

No prior coverage has been conducted on TRICARE payments for breast pumps during the last 5 years.

## 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 the DHA pays reasonable prices for standard electric breast pumps and replacement parts.	Funds could be put to better use of \$81.2 million for FYs 2019-23.	97X0130
1.b	Internal Controls. This review will identify payments from suppliers that billed excessive amounts for breast pumps and replacement parts.	Questioned costs in the amount of \$16.2 million for 2016.	97X0130

## Appendix C

### Summary of Management Comments on Potential Monetary Benefits and Our Response

#### *Defense Health Agency Comments*

(FOUO) The DHA Director agreed with the finding, but disagreed with using a fixed price of [REDACTED] as a point of comparison for standard electric breast pumps. The Director disagreed with using Medicaid pricing as a benchmark for pricing breast pump replacement parts. The Director stated that it may be easier for beneficiaries to obtain replacement parts in the retail environment and request reimbursement, rather than going through a supplier. The Director provided examples of retail sources that the Director believes shows that the Medicaid prices are too low: \$18.99 for 2 tubes, \$28.49 for a power adapter, \$12.79 for six bottles and six lids, and \$4.99 for a locking ring.

#### *Our Response*

(FOUO) We disagree with the Director that the [REDACTED] price is an inappropriate price point for standard electric breast pumps. The TRICARE West Region contractor negotiated prices of [REDACTED] and [REDACTED] with three national suppliers to provide eight breast pumps models. We reviewed claims submitted by three suppliers who routinely billed the DHA more than \$1,000 per breast pump. We found that many of the claims were for the identical breast pump offered by one of the three national suppliers for no more than [REDACTED]. Specifically, we identified that the DHA paid as much as \$1,400 for the Medela Pump in Style Starter Kit and Spectra S2 breast pump models to a single provider, even though the retail costs for the breast pumps in all 49 claims that we reviewed were less than \$200. The DHA would have paid no more than [REDACTED] for each of the 49 breast pumps in our review if the DHA used a supplier that the TRICARE West Region contractor negotiated for the exact breast pumps provided by the other supplier.

(FOUO) Furthermore, breast pumps offered by the three national suppliers at [REDACTED] and [REDACTED] are very similar to the more expensive models. For example, all three national suppliers offer the Medela Pump in Style Starter Kit model. The Starter Kit model offers the exact breast pump and many of the same parts offered in the Medela Pump in Style with On-the-go Tote model; however, it does not come with a carrying bag and has fewer accessories. We identified that the DHA paid as much as \$1,500 for the Medela Pump in Style with On-the-go Tote



~~(FOUO)~~ model, even though the Starter Kit model could have been purchased for no more than [REDACTED]. Additionally, local Walmart stores, which were located within the same area of the supplier that provided the breast pumps for \$1,500, sold the same Medela Pump in Style with On-the-go Tote model for only \$192.

We believe that the DHA could achieve greater savings by utilizing suppliers with high-volume discounts. If the DHA prefers to offer additional breast pump models, the DHA or its contractors could work with suppliers to achieve a discounted rate for other breast pump models.

For replacement parts, we partially agree with the Director that retail prices should be used as the price point when replacement parts are purchased directly by beneficiaries. The Director stated that it is easier for beneficiaries to obtain replacement parts in the retail environment and request reimbursement; however, TRICARE claims data showed that only 0.7 percent of all claims for replacement parts provided in FY 2017 were purchased directly by the beneficiary and submitted for reimbursement. Therefore, negotiating rates with suppliers would cover the remaining 99.3 percent of the claims for replacement parts.

The Director provided links to retail prices for replacement parts. Specifically, the Director provided a link that showed a retail price of:

- \$18.99 for 2 tubes, or \$9.49 per tube. This audit report used a Medicaid price of \$7.50 per tube. Our research identified retail prices equal to or less than the \$7.50 Medicaid price per tube, such as \$7.89 for 2 tubes, or \$3.95 per tube.
- \$28.49 for a power adapter. This audit report used a Medicaid price of \$16.00 for a power adapter. Our research identified retail prices less than the \$16.00 Medicaid price, such as \$10.97 for a power adapter that was compatible with the same breast pump provided in the link the Director provided.
- \$12.79 for six bottles and six bottle caps. This audit report used a Medicaid price of \$6.62 for a single bottle and \$2.80 for a single bottle cap, which would total \$9.42 together. The example the Director provided was for a set of six bottles and six bottle caps. As a result, the Director's example was significantly less than our Medicaid price points for bottles and bottle caps.
- \$4.99 for a locking ring. This audit report used a Medicaid price of \$4.31 for a single locking ring, which is very close to the example the Director provided. Additionally, we found that suppliers provided more than one locking ring to beneficiaries in 2016 in almost 80 percent of the claims. Our research indicated that locking rings are much less expensive when provided in a set. For example, the same website the Director provided offers a set of four Medela locking rings for \$8.75, or \$2.19 per locking ring, which is less than the \$4.31 Medicaid rate.

If the DHA used suppliers that could leverage high-volume discounts, we believe that the DHA may be able to achieve rates similar to the Medicaid rates and possibly even lower depending on the replacement part.

We will follow up with the DHA to determine the actual monetary benefits that the DHA realizes once it implements maximum allowable rates for breast pumps and replacement parts.

## Management Comments

### Director, Defense Health Agency




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

APR 03 2018

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

SUBJECT: Modified Response to Department of Defense Inspector General Draft Report,  
"TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts"  
(D2017-D000CJ-0079.000)

Thank you for the opportunity to review and comment on the Department of Defense Inspector General's (DoD IG) Draft Report, "TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts" (D2017-D000CJ-0079.000). The Director, Defense Health Agency (DHA), signed a prior memorandum providing comments to the DoD IG on payments for breast pumps and replacement parts on March 9, 2018. Following a conversation with the DoD IG and the DHA J-10, attached are modified comments that indicate the agency agrees with the findings in the report, and proposes an alternative solution which still meets the intent of the DoD IG findings. My point of contact for this issue is [REDACTED], who can be reached at [REDACTED] or via email at [REDACTED].

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

Attachment:  
As stated

## Director, Defense Health Agency (cont'd)

**Defense Health Agency  
Response to Department of the Defense Inspector General Report  
"TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts"  
(D2017-D000CJ-0079.000)**

**Department of the Defense Inspector General (DoD IG) Finding:** "The Defense Health Agency (DHA) overpaid for standard electric breast pumps and replacement parts for TRICARE beneficiaries in the three TRICARE regions in 2016."

**DHA Response:** DHA concurs with the DoD IG finding.

**DoD IG RECOMMENDATION 1:** "Use only suppliers that have entered into agreements that have fixed reimbursement rates to provide standard electric breast pumps and replacement parts throughout all TRICARE regions."

**DHA Response:** DHA concurs with the DoD IG Recommendation one in part. DHA agrees that the implementation of a fixed rate for breast pumps and supplies is a necessary step, and is in the preliminary phases of establishing maximum allowable rates for the pump and supplies. The Managed Care Support Contractors (MCSCs) would then be able to apply additional discounts for their network providers, as specified within their contracts. This approach meets the intent of the DoD IG finding and recommendation, while ensuring that beneficiaries continue to have access to out-of-network providers and retail environments for the purchase of these items, with reasonable cost controls. We anticipate that this effort (to establish maximum allowable charges) will take 12-18 months to complete.

We disagree on the amounts established by the DoD IG: [REDACTED] for the pump and additional amounts for supplies benchmarked against Medicaid rates. It may be easier for some beneficiaries to obtain a pump or replacement supplies via out-of-network providers or the retail environment and submit a claim, rather than going through a specialized network Durable Medical Equipment (DME) provider (who may or may not be available in their area). See additional comments for details on retail pricing for replacement supplies. TRICARE is dedicated to retaining beneficiary choice and continuing to allow beneficiaries, in consultation with their care providers, to determine the best type of supply for their situation.

As noted, we are in the preliminary phases of developing a maximum allowable amount for the pumps and supplies, and estimate that these limitations will be implemented within 12-18 months. The maximum allowable amounts will be provided to the DoD IG when approved by the Director, DHA.

**DoD IG RECOMMENDATION 2:** "To the extent practicable, review and pursue appropriate action, such as recouping any overpayments, from the suppliers that billed excessive amounts for breast pumps and replacement parts."

**DHA Response:** DHA concurs with the DoD IG Recommendation two. Under the T-3 Contract in the West Region, DHA successfully initiated recoupments with [REDACTED], resulting in \$718,559.20 recouped to date.

## Director, Defense Health Agency (cont'd)

### Additional DHA Comments:

**Additional Information on Supplies:** Although the footnote states that the authors could not use retail rates because they were not available, we respectfully offer the following hyperlinks, based on a brief search of Target and Amazon for Medela-brand supplies (Ameda for the locking rings), and note that the prices in the retail space are significantly higher than what is listed for the six Medicaid states, and in several instances closely align with the average TRICARE paid amounts noted in the report.

- Tubing: <https://www.target.com/p/medela-174-pump-in-style-replacement-tubing/-/A-52585182#lnk=sametab>
- Power Adapter: [https://www.target.com/p/medela-pump-in-style-advanced-power-charger-adapter-9-volt/-/A-13778506?ref=tgt\\_adv\\_XS000000&AFID=google\\_pla\\_df&CPNG=PLA\\_Baby+Shop\\_ping\\_Brand&adgroup=SC\\_Baby&LID=700000001170770pgs&network=g&device=c&location=9028719&gclid=Cj0KCQiAnuDTBRDUARIsAL41eDrhoLak3gFHaKxMw9-t2mcbICJS58w\\_e\\_jisYFhUvvtwjS4qDbFo4caArEfeALw\\_wcB&gclsrc=aw.ds](https://www.target.com/p/medela-pump-in-style-advanced-power-charger-adapter-9-volt/-/A-13778506?ref=tgt_adv_XS000000&AFID=google_pla_df&CPNG=PLA_Baby+Shop_ping_Brand&adgroup=SC_Baby&LID=700000001170770pgs&network=g&device=c&location=9028719&gclid=Cj0KCQiAnuDTBRDUARIsAL41eDrhoLak3gFHaKxMw9-t2mcbICJS58w_e_jisYFhUvvtwjS4qDbFo4caArEfeALw_wcB&gclsrc=aw.ds)
- Bottles & Lids: <https://www.target.com/p/medela-breast-milk-collection-storage-bottles-5oz-6ct/-/A-14930149#lnk=sametab>
- Locking Ring: <https://www.amazon.com/Ameda-Replacement-Locking-Ring/dp/B000GEBZDQ>

**Negotiated Rates:** DHA also notes that the West Region T-3 MCSC did not comply with provider negotiated rates within the network agreements. In some instances provider network agreements stated that DME would be paid 5 percent - 15 percent above the cost of the DME based on invoiced cost.

**Interim Steps:** In the interim, DHA shall continue to monitor and communicate with the T2017 MCSCs to ensure customary and reasonable charges are applied to claims payments of breast pumps and replacement parts. MCSCs have been reminded of their requirement to implement internal controls for breast pumps and replacement parts to identify excessive amounts following established regulation: 32 CFR 199.9, 199.9 Administrative remedies for fraud, abuse, and conflict of interest (excerpt below):

(2) Improper billing practices. Examples include, charging Civilian Health & Medical Program of the United Services beneficiaries rates for services and supplies that are in excess of those charges routinely charged by the provider to the general public, commercial health insurance carriers, or other federal health benefit entitlement programs for the same or similar services.

In an effort to ensure claims are being paid in customary and reasonable manner, DHA has implemented a coordinated and collaborative phased claims review/audit training with DoD IG, DHA Program Integrity and in the near future will reach out to DHA Improper Payments for training to ensure claims subject matter experts (West/East/TDEFIC) are consistent in review of claims and ensure claims are being paid customary and reasonable.

## Acronyms and Abbreviations

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**DHA** Defense Health Agency

## **Whistleblower Protection**

### **U.S. DEPARTMENT OF DEFENSE**

*The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at [www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/](http://www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/).*

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