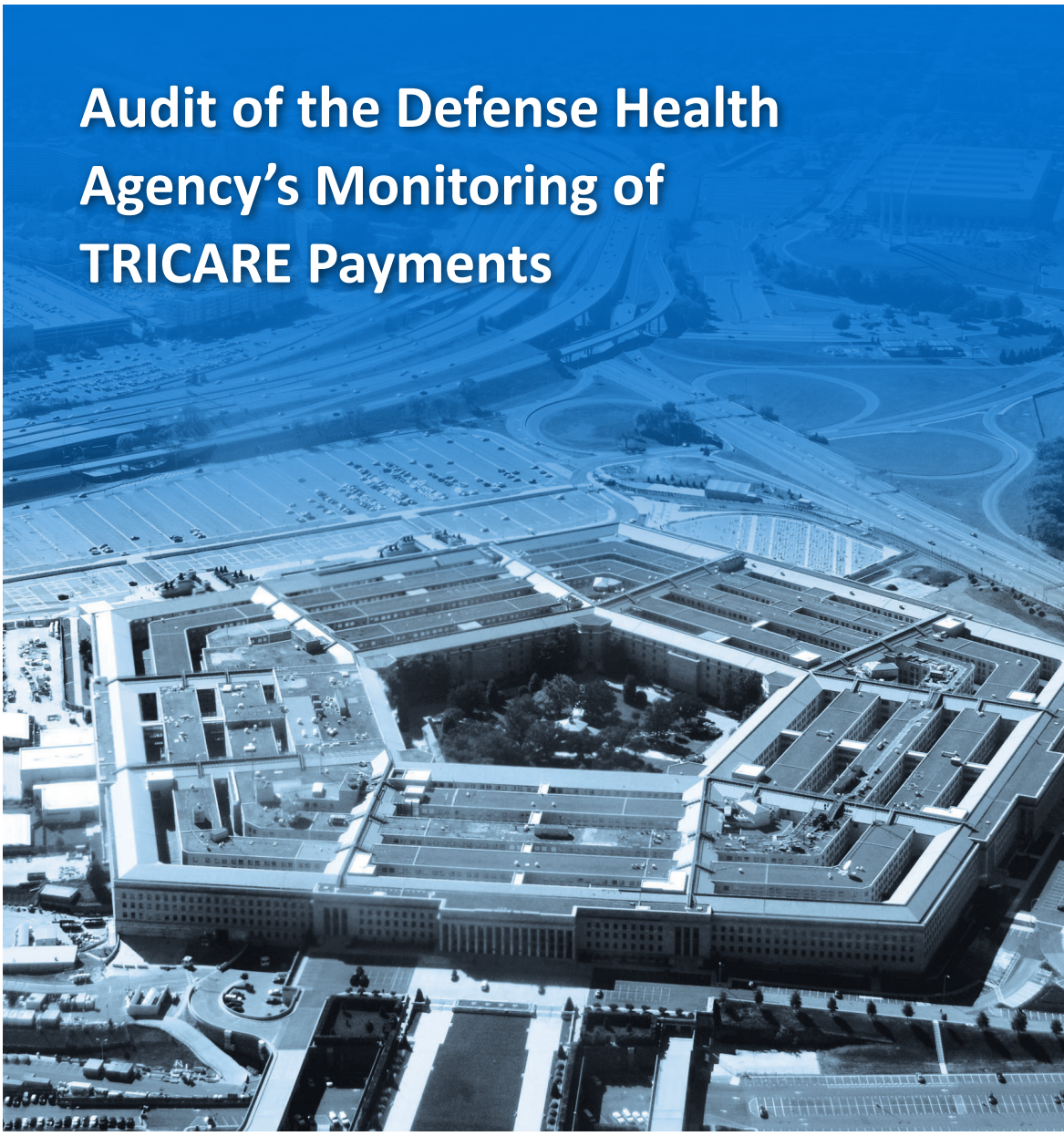
Report No. DODIG-2025-089

INSPECTOR GENERAL

U.S. Department of Defense

MAY 1, 2025

Audit of the Defense Health Agency's Monitoring of TRICARE Payments



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INSPECTOR GENERAL
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Results in Brief

Audit of the Defense Health Agency's Monitoring of TRICARE Payments

May 1, 2025

Objective

The objective of this audit was to determine whether Defense Health Agency (DHA) officials effectively monitored TRICARE payments and took appropriate actions to limit incorrect and unreasonable payments.

Background

The DHA can control costs and limit the maximum amount it pays for medical services and items using various reimbursement methodologies. When these methodologies are not established, the DHA reimburses health care providers the amount that the providers billed.

Findings

DHA officials established a monitoring process to limit incorrect and unreasonable TRICARE payments but could be more effective in monitoring the reasonableness of state prevailing rates and payments for miscellaneous procedure codes that do not have reimbursement rates. Specifically, we collected the following information that shows how the TRICARE East and West Region contractors created TRICARE state prevailing rates that varied greatly between states and paid the full amount that the provider billed for miscellaneous procedure codes that did not have TRICARE reimbursement rates.

- As of FY 2023, the TRICARE East and West Region contractors maintained state prevailing rates for 554 procedure codes. Of the 554 procedure codes, we determined that 9 of the highest paid procedure codes varied greatly between states. For example, the TRICARE East Region contractor paid a state prevailing rate of $11,500 for custom fabricated sleep apnea mouthguards (HCPCS E0486) in Illinois, which was 283 percent more than the state prevailing rate of $3,000 in the neighboring state of Iowa.
- During FY 2023, the TRICARE East and West Region contractors paid $183.3 million for 184 miscellaneous procedure codes that did not have TRICARE reimbursement rates. For example, the TRICARE East Region contractor paid $5,000 per month to a TRICARE provider to rent one of two compression device models (HCPCS E0676) to a TRICARE beneficiary, which was 641 percent more than prices advertised by other suppliers. Specifically, a different supplier advertised that it rented one model for $675 per month, and another supplier advertised that it sold (not rented) the other model for $409.50.

Findings (cont'd)

This occurred because TRICARE policy instructs TRICARE contractors on how to establish state prevailing rates; however, the policy does not require DHA officials or TRICARE contractors to ensure the state prevailing rates are reasonable or consistent with other states. Furthermore, TRICARE did not provide guidance or the authority to the TRICARE East and West Region contractors to explicitly allow them to create new reimbursement rates, except for state prevailing rates, for procedure codes that did not have TRICARE reimbursement rates before July 2024. Because the DHA did not determine that the state prevailing rates were reasonable, the DoD is at risk of wasteful spending and increasing DoD beneficiaries' risk of unreasonable cost-shares for health care services and items that are paid with state prevailing rates.

However, the DHA issued policy in July 2024 providing guidelines that the TRICARE East and West Region contractors could use to set payment thresholds for procedure codes that did not have TRICARE reimbursement rates. The DHA stated that the policy was issued to prevent reimbursement substantially in excess of customary or reasonable charges, which is a form of abuse according to TRICARE regulations.

Results in Brief

Audit of the Defense Health Agency's Monitoring of TRICARE Payments

Recommendations

We recommend that the Director, Defense Health Agency:

- Reassess and revise the state prevailing rate methodology within the TRICARE guidance to ensure the development of reasonable state prevailing rates.
- Develop and issue guidance to require Health Care Fraud Resolution, or another appropriate office, to review the developed state prevailing rates for reasonableness and consistency on an annual basis.
- Develop and implement an oversight mechanism to ensure that the TRICARE East and West Region contractors take timely and appropriate action to ensure the reasonableness of the new reimbursement rates in accordance with TRICARE Reimbursement Manual, Chapter 1, Addendum E, "Controls for Excessive Charges For Professional Services, And Durable Medical Equipment, Prosthetics, Orthotics, And Supplies/Parenteral And Enteral Nutrition (DMEPOS/PEN) Services Without Established Rates."

Management Comments and Our Response

The responses to our recommendations addressed the specifics of the recommendations. The three recommendations are resolved but will remain open until the DHA provides evidence that the agreed-upon corrective actions were taken.

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

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, Defense Health Agency	None	1.a, 1.b, 1.c	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** – The DoD OIG verified that the agreed upon corrective actions were implemented.


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May 1, 2025

MEMORANDUM FOR DIRECTOR, DEFENSE HEALTH AGENCY

SUBJECT: Audit of the Defense Health Agency's Monitoring of TRICARE Payments (Report No. DODIG-2025-089)

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 Defense Health Agency Acting Director agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. We will close the recommendations when management provides us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to either [redacted] if unclassified or [redacted] if classified SECRET.

If you have any questions, please contact me at [redacted].

Carmen J. Malone
Assistant Inspector General for Audit
Acquisition, Contracting, and Sustainment

Contents

Introduction

Objective

The objective of this audit was to determine whether Defense Health Agency (DHA) officials effectively monitored TRICARE payments and took appropriate actions to limit incorrect and unreasonable payments. See Appendix A for a discussion on the scope, methodology, and prior coverage related to the audit objective.

Background

The Defense Health Agency and DoD TRICARE Program

The DHA is an agency under the authority, direction, and control of the Assistant Secretary of Defense (Health Affairs) (ASD[HA]). The DHA manages DoD medical and dental personnel authorizations and policy, facilities, funding, and programs, including the TRICARE program. TRICARE is the DoD's health care program for uniformed Service members, retirees, and their families around the world. The TRICARE program provides various benefits, such as medical, dental, and vision benefits, and it includes two managed care regions, the TRICARE East and West Regions, within the United States, as shown in Figure 1.

Figure 1. TRICARE Regions in the United States from 2018 Through 2024

Source: The DHA.

The DHA uses contractors to manage health care support and claims processing within the two regions. The DHA issued two new managed care support contracts for the TRICARE East and West Regions, which began in January 2025.

TRICARE Reimbursement Methodologies and Rate Types

The DHA can control costs and limit the maximum amount it pays for medical services and items by using various reimbursement methodologies and rate types, such as Diagnosis Related Groups (DRG) for certain inpatient care, CHAMPUS Maximum Allowable Charge (CMAC) rates for health care professional services, state prevailing rates for TRICARE services and items when no maximum allowable charge is available, and fee schedules for durable medical equipment.[1] When the DHA has not established reimbursement methodologies for health care services or equipment, the DHA reimburses health care providers the amount that the providers billed (often referred to as paid-as-billed).

State Prevailing Rates

The DHA generally requires its TRICARE contractors to establish state prevailing rates for health care services and items that do not have TRICARE reimbursement rates. The TRICARE East and West Region contractors establish state prevailing rates by first identifying all billed charges for a specific health care service or item from the previous year, and the TRICARE contractors then separate the billed charges by state in ascending order from the lowest to the highest billed amount. Next, the TRICARE contractors calculate and establish the state prevailing rate at the 80th percentile of the billed charges for the service or item in that state. As a result, each state generally has a unique state prevailing rate for each TRICARE service or equipment.

Miscellaneous Procedure Codes

The Centers for Medicare and Medicaid Services (CMS) established the Healthcare Common Procedure Coding System (HCPCS) Level II codes as a collection of standardized codes that represent medical procedures, supplies, products, and services. Miscellaneous procedure codes are one type of HCPCS code that allows providers to bill for health care services or equipment when there is no existing national code that adequately describes the item or service being billed. The CMS established these codes to identify items or services that are rarely furnished or for which few claims are expected to be filed. Miscellaneous codes are often designated using phrases, such as "not otherwise classified," "not otherwise specified," and "miscellaneous," following the type of item that was provided.

[1] CHAMPUS stands for the Civilian Health and Medical Program of the Uniformed Services.

Finding

DHA Officials Established a Monitoring Process, but Improvements Are Needed

DHA officials established a monitoring process to limit incorrect and unreasonable TRICARE payments but could be more effective in monitoring the reasonableness of state prevailing rates and payments for miscellaneous procedure codes that do not have reimbursement rates. Specifically, we collected the following information that shows how the TRICARE East and West Region contractors created TRICARE state prevailing rates that varied greatly between states and paid the full amount that the provider billed for miscellaneous procedure codes that did not have TRICARE reimbursement rates.

- As of FY 2023, the TRICARE East and West Region contractors maintained state prevailing rates for 554 procedure codes. Of the 554 procedure codes, we determined that 9 of the highest paid procedure codes varied greatly between states. For example, the TRICARE East Region contractor paid a state prevailing rate of $11,500 for custom fabricated sleep apnea mouthguards (HCPCS E0486) in Illinois, which was 283 percent more than the state prevailing rate of $3,000 in the neighboring state of Iowa.
- During FY 2023, the TRICARE East and West Region contractors paid $183.3 million for 184 miscellaneous procedure codes that did not have TRICARE reimbursement rates. For example, the TRICARE East Region contractor paid $5,000 per month to a TRICARE provider to rent one of two compression device models (HCPCS E0676) to a TRICARE beneficiary, which was 641 percent more than prices advertised by other suppliers. Specifically, a different supplier advertised that it rented one model for $675 per month, and another supplier advertised that it sold (not rented) the other model for $409.50.

This occurred because TRICARE policy instructs TRICARE contractors on how to establish state prevailing rates; however, the policy does not require DHA officials or TRICARE contractors to ensure the state prevailing rates are reasonable or consistent with other states. Furthermore, TRICARE did not provide guidance or the explicit authority to the TRICARE East and West Region contractors to allow them to create new reimbursement rates, except for state prevailing rates, for procedure codes that did not have TRICARE reimbursement rates before July 2024. Because the DHA did not determine that the state prevailing rates were reasonable, the DoD is at risk of wasteful spending and increasing DoD beneficiaries' risk of unreasonable cost-shares for health care services and items that are paid with state prevailing rates.

However, the DHA issued policy in July 2024 that provided guidelines that the TRICARE East and West Region contractors could use to set payment thresholds for procedure codes that did not have TRICARE reimbursement rates. The DHA stated that the policy was issued to prevent reimbursement substantially in excess of customary or reasonable charges, which is a form of abuse according to TRICARE regulations.

The DHA Established a Payment Monitoring Process and Reimbursement Methodologies for TRICARE Payments

DHA officials established a monitoring process to limit incorrect and unreasonable TRICARE payments. Specifically, DHA officials:

- contracted with an independent company to monitor the accuracy of health care payments made by TRICARE East and West Region contractors;
- established various reimbursement methodologies to limit unreasonable payments for health care services; and
- used data analytics to monitor for unreasonable TRICARE payments.

Independent Review to Identify Incorrect TRICARE Payments

A DHA contractor monitored the accuracy of health care payments made by TRICARE East and West Region contractors. Specifically, DHA officials awarded a contract to an independent contractor to perform a review of claims processing procedures and reimbursement methodologies used by TRICARE East and West Region contractors. The contract required that the company assess contractor compliance with TRICARE policies and directives for TRICARE East and West Region contracts to determine the accuracy of claim payments and payment record coding.

The TRICARE Operations Manual (Manual) requires the Government to conduct quarterly or annual claims payment accuracy reviews and TRICARE encounter data system error occurrence reviews, as specified in each contract. According to the Manual, the Government will use an independent external claims review service to perform these reviews under the TRICARE Claims Review Services contract.[2] The Manual states that TRICARE East and West Region contractors must not exceed a 1.75 percent error rate of total billed charges in 2022 and 2023.

[2] TRICARE Operations Manual, Chapter 3, Section 5, states that the DHA uses an independent contractor to conduct health care claims accuracy reviews under the TRICARE Claims Review Services (TCRS) contract. The DHA develops random samples of claims, which are stratified by the claim paid amount. The DHA, through the TRICARE Claims Review Services contractor, conducts: (1) quarterly claims payment accuracy reviews, (2) quarterly claims occurrence reviews, (3) quarterly denied claims compliance reviews, (4) annual underwritten unallowable health care cost compliance reviews, and (5) annual low dollar focus study reviews. The TRICARE Claims Review Services contractor reviews for payment errors, such as incorrectly billed amounts, cost-share errors, incorrect eligibility, wrong payee errors, and incorrect pricing.

In 2022, the DHA's independent contractor calculated that TRICARE East and West Region contractors had a quarterly payment error rate of 0.28 percent or less and 0.33 percent or less, respectively. In 2023, the DHA's independent contractor calculated that TRICARE East and West Region contractors had a quarterly payment error rate of 0.31 percent or less and 0.09 percent or less, respectively. These error rates did not exceed the Manual's maximum allowable 1.75 percent payment error rate; therefore, we concluded that the TRICARE East and West Region contractors met the Manual's requirement.

Establishment of Reimbursement Methodologies and Rate Types

The DHA relies on the use of inpatient and outpatient reimbursement methodologies and established more than 20 reimbursement methodologies and rate types to limit unreasonable payments for health care services. For example, the CHAMPUS Maximum Allowable Charge (CMAC) rate is one of the reimbursement methodologies used by the DHA to limit costs.

The CMAC rate is the maximum amount TRICARE will reimburse for nationally established procedure codes. For example, a TRICARE provider billed $543 for an office visit (Current Procedure Terminology [CPT] 99205) with a medical doctor in the Washington, D.C., area for a patient seen on May 3, 2024. The TRICARE program used a CMAC rate to reimburse the provider $246.68.

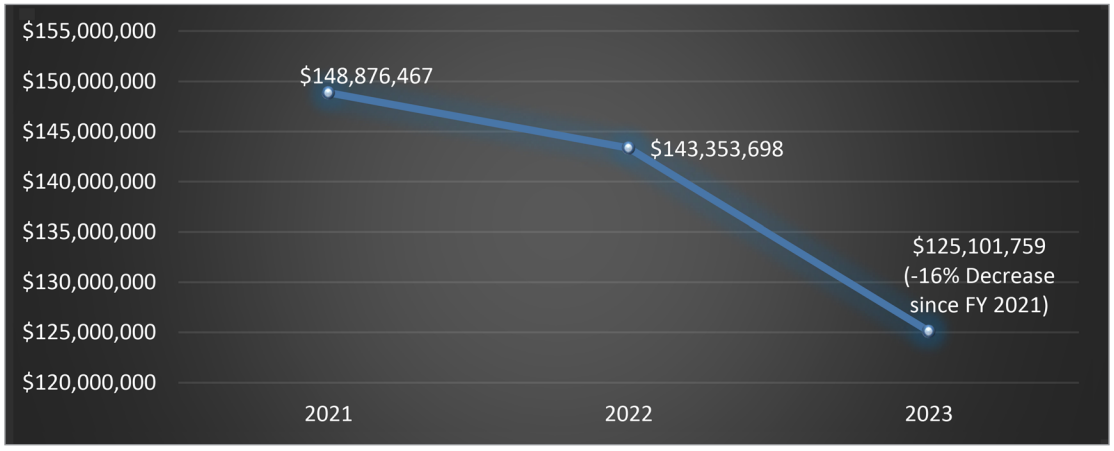
The following is a list of the DHA's reimbursement methodologies and rate types.

- Ambulance
- Ambulatory Surgery Centers
- Anesthesia
- Bonus Payments
- CHAMPUS Maximum Allowable Charges
- Childbirth and Breastfeeding Support Demonstration
- Critical Access Hospitals
- Diagnostic Related Groups
- Durable Medical Equipment Prosthetics, Orthotics, And Supplies
- End Stage Renal Disease Prospective Payment System
- Foreign Fee Schedule
- Home Health Agency
- Hospice
- Injectable Drugs
- Locality Based Waivers
- Long-Term Care Hospitals/Inpatient Rehabilitation Facility
- Mental Health Per Diem
- Negotiated Rates and Discounts
- Outpatient Prospective Payment System
- Skilled Nursing Facilities
- Sole Community Hospital
- State Prevailing Rates

The DHA developed five new reimbursement methodologies since 2021 to control health care costs. For example, the DHA implemented a TRICARE-specific Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) fee schedule, effective June 2021, that established reimbursement rates for 240 procedure codes that the Medicare program did not include on the Medicare DMEPOS fee schedule. Before June 2021, the DHA primarily relied on the Medicare DMEPOS fee schedule to pay for DMEPOS items and services; however, the Medicare fee schedule did not include reimbursement rates for many types of health care items, such as certain wheelchairs, gait trainers, orthotic footwear, and implantable neurostimulators and components. Therefore, the TRICARE East and West Region contractors would have likely paid for these items without a reimbursement rate before the establishment of the TRICARE-specific DMEPOS fee schedule. The DHA identified recent DoD OIG reports as one of the reasons for the development of the new TRICARE-specific DMEPOS fee schedule.[3]

These efforts appear to have resulted in a decrease in TRICARE payments, from FY 2021 through FY 2023, for health care services provided to TRICARE beneficiaries that were previously paid-as-billed, as shown in Figure 2.

Figure 2. Decrease in Paid-as-Billed Payments for All Health Care Services and Items Provided from FY 2021 Through FY 2023



Source: Military Health System Data Repository, February 13, 2024.

[3] Report No. DODIG-2018-108, "Audit of TRICARE Payments for Standard Electric Breast Pumps and Replacement Parts," April 25, 2018.
Report No. DODIG-2019-112, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates," August 20, 2019.

Also, on July 18, 2024, the DHA issued policy that provided guidelines that the TRICARE East and West Region contractors can use to set payment thresholds for items without a fee schedule or state prevailing rate.[4] The DHA stated that the policy was issued to prevent reimbursements substantially in excess of customary or reasonable charges, which is a form of abuse according to TRICARE regulations. The policy allows the TRICARE East and West Region contractors to establish a payment threshold by using an existing rate of a comparable item or the supplier's price list amount for those services that are currently paid without a reimbursement rate. The DHA issued the policy as a corrective action to a recommendation within the 2019 DoD OIG Report, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates."[5]

The DHA Used Data Analytics to Identify Potentially Unreasonable TRICARE Payments

The DHA Health Care Fraud Resolution (HCFR) used data analytics to identify potentially unreasonable TRICARE payments. According to DHA HCFR personnel, they created "$25K reports" and "spike reports" to: (1) identify potential fraud and abuse, program vulnerabilities, claims processing errors, and billing errors; (2) ensure fiduciary responsibility for TRICARE; and (3) to protect taxpayer dollars.[6] For example, one spike report found that a provider increased the amount it billed for dialysis claims by 2,197 percent, from $5,349 in October 2022 to $117,544 in November 2022. Also, according to the HCFR Director, the HCFR identified 14 specific examples from the "$25K reports" and "spike reports" that were sent to the TRICARE East Region contractor to research and determine why the health care provider claims were costly. From these reports, the HCFR can start inquiries that may result in law enforcement actions or other administrative actions. The DHA HCFR's data analytics helped identify potentially unreasonable payments for miscellaneous procedure codes that did not have reimbursement rates, which we discuss later in the audit report.

[4] TRICARE Reimbursement Manual, Chapter 1, Addendum E, "Controls for Excessive Charges for Professional Services, and Durable Medical Equipment, Prosthetics, Orthotics, And Supplies/Parenteral and Enteral Nutrition (DMEPOS/PEN) Services Without Established Rates."

[5] Report No. DODIG-2019-112, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates," August 20, 2019.

[6] According to the Director, HCFR, the "$25K report" identified claims that exceeded $25,000. The "spike report" identified providers that had unusual spikes in the amount paid by month and year. The Director, HCFR, stated that HCFR personnel used the reports to review for potential fraud and abuse and other program-related issues. Specifically, the reports identified anomalous trends, such as high dollar claims, miscellaneous codes, and high number of units.

The DHA Could More Effectively Monitor TRICARE Payments for State Prevailing Rates and Payments for Miscellaneous Procedure Codes

DHA officials could more effectively monitor the reasonableness of TRICARE payments for health care services that were:

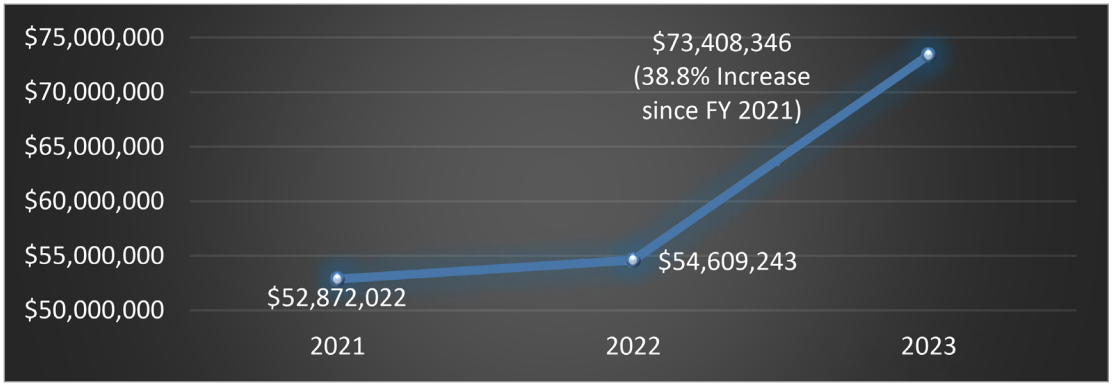
- paid using the TRICARE state prevailing rate methodology; or
- captured by miscellaneous codes that do not have TRICARE reimbursement rates.

The DHA Needs to Improve the Monitoring Process When Reimbursing TRICARE Claims Using State Prevailing Rates

DHA officials could more effectively monitor the reasonableness of TRICARE payments for health care services that were paid using the TRICARE state prevailing rate reimbursement methodology. DHA officials did not review the state prevailing rates when they were first created by the TRICARE East and West Region contractors, nor did DHA officials monitor TRICARE payments to determine whether TRICARE payments using state prevailing rates were consistent or reasonable.

TRICARE policy requires that the contractor perform annual updates to the state prevailing rates; however, TRICARE policy does not require the contractor to compare the rates between states or regions, nor does the policy require the DHA to approve or perform periodic reviews of the state prevailing rates. TRICARE East and West Region contractors used state prevailing rates to pay 317,079 TRICARE claim line items worth $180.9 million for TRICARE health care services and items provided from FY 2021 through FY 2023. The payments increased by 38.8 percent from FY 2021 to FY 2023, as shown in Figure 3.

Figure 3. Increase in State Prevailing Rate Payments for Health Care Provided from FY 2021 Through FY 2023



Source: Military Health System Data Repository, February 13, 2024.

The DHA created a reimbursement methodology for developing state prevailing rates for each of the 50 states, and the District of Columbia, that may result in unreasonable and vastly inconsistent prices. The state prevailing rate methodology is determined by using the most commonly billed charges from the previous year for each health care service or medical supply. A state prevailing rate can be greatly affected if only a limited number of providers were billed for a specific TRICARE service or supply. TRICARE guidance requires the TRICARE East and West Region contractors to establish a state prevailing rate using the billed amount that falls within the 80th percentile of all billed charges for the specific procedure code in the prior 12 months.

For example, nine suppliers located in Illinois billed the TRICARE program for 36 sleep apnea mouthguards (E0486) with prices ranging from $69 to $14,258. In this example, the 80th percentile of 36 claims is the 29th claim that the Illinois providers billed. Using the DHA's methodology, the TRICARE East Region contractor selected the billed amount of the 29th claim, which was $11,500, as the state prevailing rate, as shown in Table 1. Although 26 of the 36 devices were billed at $7,995 or less, two of the nine providers billed significantly more, resulting in a state prevailing rate of $11,500 because it was the 80th percentile charge.[7] Therefore, the TRICARE East and West Region contractors likely used unreasonably high state prevailing rates to pay for health care services and equipment.

Table 1. Calculation of Illinois State Prevailing Rate for E0486

Amount Billed (Lowest to Highest)	Number of Times Billed	Cumulative Number of Claims
$69	1	1
2,675	2	2 to 3
2,750	9	4 to 12
5,200	1	13
5,800	2	14 to 15
5,980	1	16
6,500	2	17 to 18

[7] To determine the state prevailing rate, TRICARE policy states that a state prevailing rate is calculated as the 80th percentile of all actual billed charges for the service or procedure within a specific state. TRICARE policy states that the TRICARE contractor should arrange the actual billed charges in ascending order from the lowest to the highest charge. Using this methodology, the TRICARE contractor would arrange the billed charges for the sleep apnea mouthguards from $69 to $14,258. Next, TRICARE policy states that the contractor should multiply the number of services or procedures by 80 percent to determine which actual billed amount falls within the 80th percentile. In this case, the contractor would multiply 36 (the number of sleep apnea mouthguards) by 80 percent, which equals 28.8. TRICARE policy states that calculations of the 80th percentile should be rounded to the next higher number of accumulated services, which is the 29th sleep apnea mouthguard. Using this methodology, the TRICARE contractor would select the value of the 29th claim, $11,500, as the state prevailing rate.

Table 1. Calculation of Illinois State Prevailing Rate for E0486 (cont'd)

Amount Billed (Lowest to Highest)	Number of Times Billed	Cumulative Number of Claims
6,970	1	19
7,129	2	20 to 21
7,648	3	22 to 24
7,995	2	25 to 26
11,500 This amount was selected as the state prevailing rate.	8	27 to 34 (80th percentile = 29th item)
13,940	1	35
14,258	1	36

Source: Military Health System Data Repository, April 3, 2024.

Additionally, state prevailing rates varied greatly among the 50 states and the District of Columbia, and as a result, the DHA paid substantially higher prices for TRICARE services and supplies in some states versus other states. In some cases, a state prevailing rate for one state is thousands of dollars more than the state prevailing rate for another state.

Table 2 shows examples of the highest paid health care services and items when the TRICARE East and West Region contractors used state prevailing rates. Specifically, the table shows large differences between the lowest and highest state prevailing rates in the United States. In FY 2023, the TRICARE East and West Region contractors maintained state prevailing rates for 554 procedure codes. We determined that nine of the highest paid procedure codes varied greatly between the states. For example, the highest state prevailing rates for compression devices (E0676) and Group Psychotherapy (G0410) were more than 1,000 percent higher than the lowest state prevailing rates.

Table 2. Significant Variances Between the Lowest and Highest State Prevailing Rates for Select Health Care Services and Items

Procedure			Lowest State Prevailing Rate		Highest State Prevailing Rate		Difference	
Code	Short Description	Amount Paid in FY 2023*	State	Amount	State	Amount	Amount	Percent Increase
E0676	Compression Device	$18,494,272	NJ	$600	KS	$7,995	$7,395	1,233%
G0410	Group Psychotherapy	13,649,678	WY	31	TN	2,097	2,066	6,665
C1713	Anchor/Screw	2,829,941	ME	795	NJ	6,096	5,301	667
E0486	Sleep Apnea Mouthguard	2,602,395	HI	1,800	IL	11,500	9,700	539
G0177	Training for the Care of Disabling Mental Health Problems	2,330,612	CA and MD	80	AZ	675	595	744
H0035	Mental Health Services for Less Than 24 Hours	2,006,927	SD and ND	233	CA	3,250	3,017	1,295
H2013	Psychiatric Health Facility Services	1,747,539	CA	20	NE	1,126	1,106	5,530
H0018	Behavioral Health Services	1,669,676	AK	200	FL	2,666	2,466	1,233
L8699	Prosthetic Implants, Not Otherwise Specified	1,289,200	NY	412	GA	3,300	2,888	701

Note: We rounded the numbers to the nearest dollar.

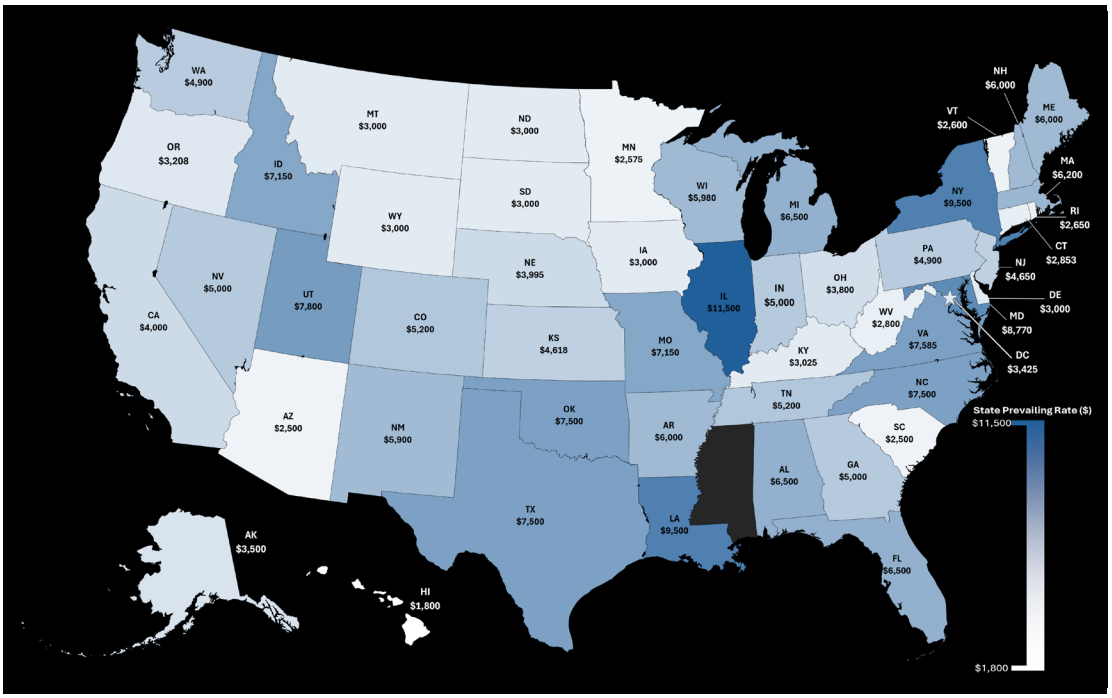
*The amount paid across all states.

Source: The DoD OIG.

Figure 4 shows the established state prevailing rates for sleep apnea mouthguards (HCPCS E0486) in each state. The state prevailing rates ranged from $1,800 in Hawaii to $11,500 in Illinois, with a median state prevailing rate of $4,950. As discussed earlier, the TRICARE East Region contractor created a state prevailing rate of $11,500 for Illinois for sleep apnea mouthguards (HCPCS E0486); however, the TRICARE East Region contractor established significantly lower rates for neighboring states for the same procedure code. As shown in Figure 4, the established state prevailing rates for sleep apnea mouthguards (HCPCS E0486) in Iowa and Kentucky are $3,000 and $3,025, respectively. See Appendix B for an analysis of the remaining state prevailing rates shown in Table 2.

While state prevailing rates can vary significantly, the CMAC reimbursement system, which is commonly used by the DHA to pay for outpatient and other services, does not vary as much across the states. As previously mentioned, the TRICARE East and West Region contractors created state prevailing rates of $11,500 and $1,800 for Illinois and Hawaii, respectively, for sleep apnea mouthguards (HCPCS E0486). However, the DHA created CMAC rates to pay no more than $234.96 and $230.69 for an office visit with a medical doctor in Illinois and Hawaii, respectively, which was a difference of only about 1.9 percent.

Figure 4. TRICARE State Prevailing Rates for Sleep Apnea Mouthguards (HCPCS E0486)



Note: The TRICARE East Region contractor did not establish a state prevailing rate for HCPCS E0486 for the state of Mississippi.

Source: The DoD OIG, Microsoft Excel powered by Bing and © GeoNames, Microsoft, and TomTom, August 2024.

In addition to the TRICARE program paying unreasonably high amounts for TRICARE services and items, the patient is also likely to pay a higher cost for TRICARE services and items if the TRICARE East or West Region contractor establishes unreasonably high state prevailing rates. For example, in FY 2023, the same Illinois durable medical equipment (DME) provider billed, and the TRICARE East Region contractor paid, $11,500 for one sleep apnea mouthguard (E0486) for a patient, and the TRICARE East Region contractor determined that the patient owed a patient cost-share of $2,594. However, the TRICARE East Region contractor determined that another patient in Wisconsin owed a patient cost-share of $1,495 for a sleep apnea mouthguard (E0486).[8] Furthermore, the patient cost-share of $2,594 was more than the full state prevailing rate of $2,575 for one sleep apnea mouthguard in Minnesota.

TRICARE policy does not require DHA officials or TRICARE contractors to ensure the state prevailing rates are reasonable or consistent.

TRICARE policy instructs TRICARE contractors on how to establish state prevailing rates.[9] However, TRICARE policy does not require DHA officials or TRICARE contractors to ensure the state prevailing rates are reasonable or consistent. In January 2025, the Chief, DHA Medical Benefits & Reimbursement Branch, stated that the TRICARE contractors have a requirement under title 32 Code of Federal Regulations section 199.9, which is incorporated by reference in the contract, to guard against abusive and excessive billing practices. The Chief also stated that the TRICARE contractors have been notified on several occasions that they are required to have internal controls with regard to billed charges. Furthermore, the Chief stated that the TRICARE contractors' internal controls are important because billed charges are the basis for the calculation of state prevailing rates. However, the TRICARE policy provides a specific methodology on the development of state prevailing rates, but we believe that it does not provide any flexibility in deviating from the prescribed methodology. If the TRICARE contractors determine that a state prevailing rate is too high, it appears that their only other option is to not implement the state prevailing rate, thereby paying health care providers the amount that the providers billed (paid-as-billed).

[8] According to TRICARE, cost-share is the percentage of the total cost of a covered health care service or drug that beneficiaries pay. Cost-shares typically apply when beneficiaries use a TRICARE-authorized non-network provider, or a non-network pharmacy, and the individual has met their annual deductible. The cost-share differs from one state to another because of the differences in the total cost of a covered health care service or drug. For example, Illinois will have a higher cost-share than Minnesota for sleep apnea mouthguards because Illinois has a higher total cost for sleep apnea mouthguards than Minnesota.

[9] TRICARE Reimbursement Manual 6010.64-M, April 2021, Chapter 5, Section 1, "Allowable Charges," details how state prevailing rates are established.

The DHA stated that the methodology to develop state prevailing rates was "problematic" and led to the creation of excessive state prevailing rates ***"without validation"*** *by the DHA.*

Also in 2020, the DHA discussed in the Federal Register the need to improve reimbursement rates to control costs, reduce beneficiary out-of-pocket expenses, discourage potential fraud and abuse, and prevent excessive TRICARE reimbursement rates.[10] The DHA stated that the methodology to develop state prevailing rates was "problematic" and led to the creation of excessive state prevailing rates "without validation" by the DHA. Specifically, in the Federal Register, the DHA stated that the state prevailing rate methodology:

> is problematic in that it can lead to the generation of very high-fee schedule amounts without validation that these amounts are realistic and equitable relative to the cost of furnishing the item. Recent Department of Defense Office of Inspector General (DoD OIG) reports, as well as internal DHA analysis, have identified patterns of excessive billed charges for DMEPOS and [parenteral and enteral nutrition] items. If the billed charges are abusive and excessive, this rolls into the calculation for state prevailing amounts. Setting payment rates too high creates incentives for higher volume, financially burdens beneficiaries whose cost-sharing is based on a percentage of the allowable amount, and encourages fraud and abuse.

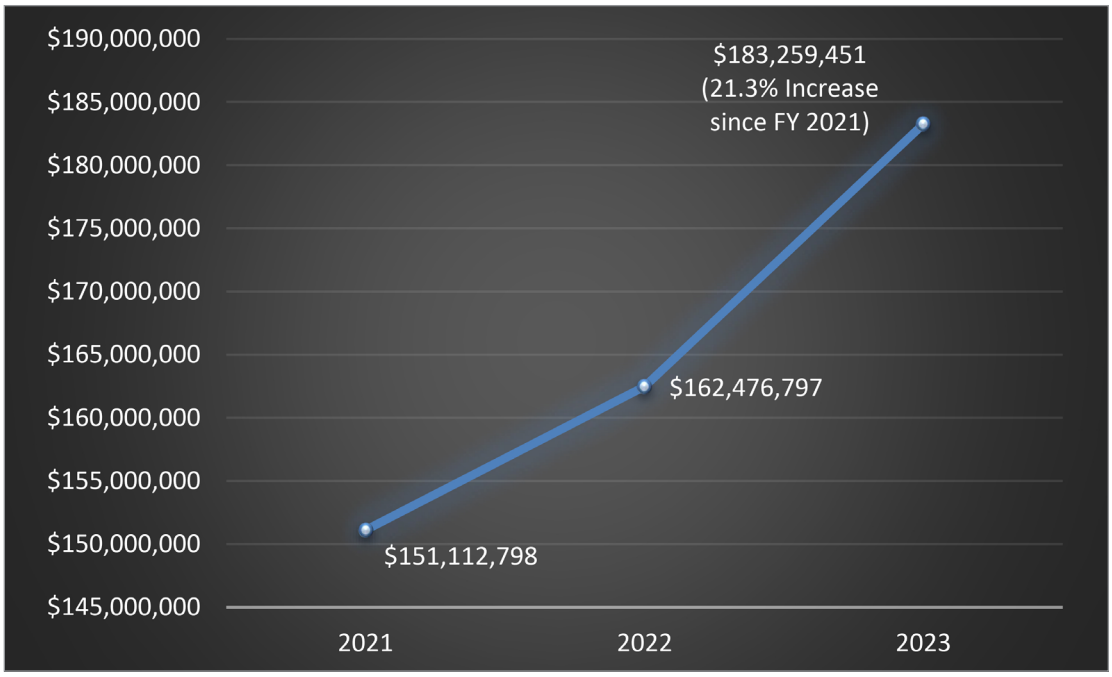
The DHA recognized the problems associated with state prevailing rates and also acknowledged that the DHA did not review the reasonableness of the rates. As a result, the DHA is at risk of paying higher prices for health care services and items that the DHA paid using state prevailing rates. Also, TRICARE beneficiaries in states with high state prevailing rates likely paid substantially higher costs for health care services and items. DHA HCFR personnel stated that they did not use data analytics to review the state prevailing rates for reasonableness. Therefore, the DHA Director should reassess and revise the state prevailing rate methodology within the TRICARE guidance to ensure the development of reasonable state prevailing rates. The DHA Director should also develop and issue guidance to require the HCFR, or another appropriate office, to review the developed state prevailing rates for reasonableness and consistency on an annual basis.

[10] The Federal Register is the official daily publication for Presidential Documents; Executive Orders; proposed, interim, and final rules and regulations; and notices by Federal Agencies, as well as notices of hearings, decisions, investigations, and committee meetings. 85 Fed. Reg. 85613, volume 85, number 249, "TRICARE; Proposed Rates for Reimbursing Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) and Parenteral and Enteral Nutrition (PEN) Items Not on the Medicare DMEPOS and PEN Fee Schedule."

Miscellaneous Procedure Codes Paid Without TRICARE Reimbursement Rates Need Improvement

The DHA needs to improve its oversight of unreasonable TRICARE payments for miscellaneous procedure codes paid without CMAC or DMEPOS rates. TRICARE costs for 184 miscellaneous procedure codes, for which the TRICARE program did not establish CMAC or DMEPOS rates, increased from $151.1 million for health care provided in FY 2021 to $183.3 million in FY 2023, an increase of $32.1 million (21.3 percent), as shown in Figure 5.[11]

Figure 5. Amount Paid Using Miscellaneous Procedure Codes for Health Care Provided from FY 2021 Through FY 2023



Source: Military Health System Data Repository, April 8, 2024.

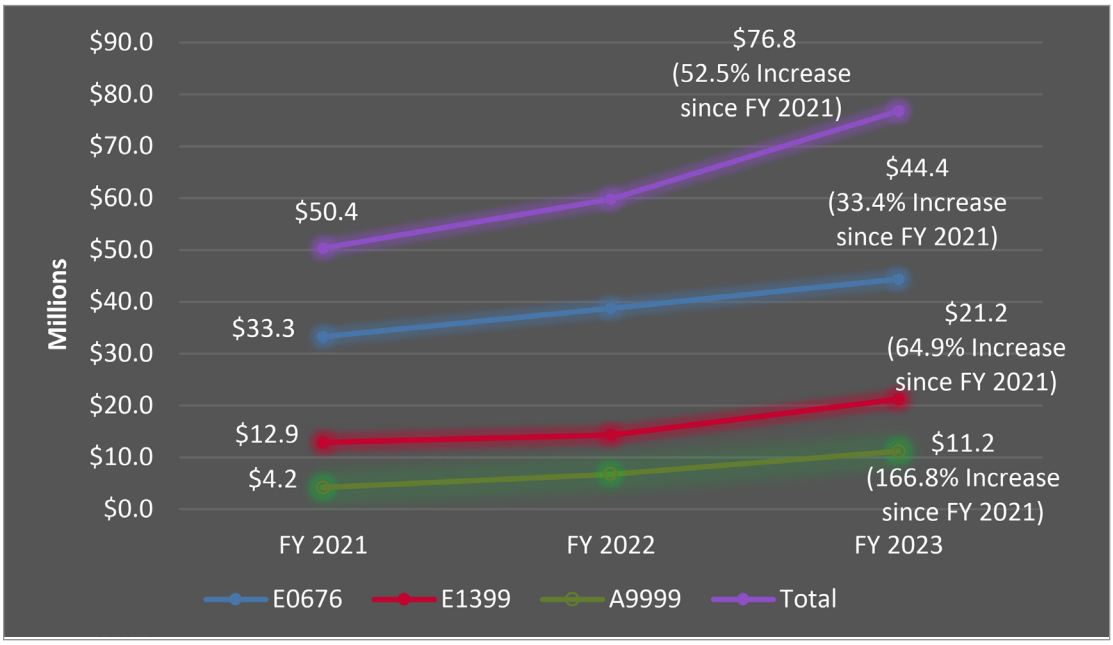
While the total cost for TRICARE payments with miscellaneous procedure codes increased from FY 2021 through FY 2023, we determined that the following three miscellaneous procedure codes had the most significant increases for those codes that exceeded $20 million during this time frame.

- E0676, "Intermittent limb compression device (includes all accessories), not otherwise specified"
- E1399, "Durable medical equipment, miscellaneous"
- A9999, "Miscellaneous DME supply or accessory, not otherwise specified"

[11] While the DHA did not implement CMAC or DMEPOS rates for the 184 miscellaneous codes, the DHA may have implemented other cost control measures, such as state prevailing rates or network percentage discounts, to reduce costs for the procedure codes. However, these cost control measures may only apply to certain states or providers.

Specifically, these miscellaneous procedure codes showed significant increases in TRICARE costs, from $50.4 million for health care provided in FY 2021 to $76.8 million in FY 2023, a cost increase of $26.5 million (53 percent), as shown in Figure 6.

Figure 6. Increase in Amount Paid Using Select Miscellaneous Procedure Codes for Health Care Provided from FY 2021 Through FY 2023



Note: Totals and percentages are rounded.
Source: Military Health System Data Repository, April 8, 2024.

As shown in Figure 6, TRICARE payments for intermittent limb compression devices (miscellaneous procedure code E0676) increased from $33.3 million in FY 2021 to $44.4 million (33 percent) in FY 2023, a cost increase of $11.1 million. Intermittent limb compression devices (E0676) accounted for 58 percent of the $76.8 million paid for the three procedure codes in FY 2023.

While the average amount paid per claim line item and the number of claim line items for intermittent limb compression devices (E0676) increased proportionally, the amount paid for miscellaneous DME supply or accessory, not otherwise specified (A9999), and durable medical equipment, miscellaneous (E1399), increased significantly even though the number of claim line items billed decreased from FY 2021 to FY 2023, as shown in Figure 7. Specifically, the average amount paid per claim line item increased for the following equipment.

- Intermittent limb compression devices (E0676) increased 10 percent, from $3,346 in FY 2021 to $3,682 in FY 2023, and the number of claim line items for these items increased by 21 percent, from 9,947 claim line items in FY 2021 to 12,058 claim line items in FY 2023.
- Durable medical equipment, miscellaneous (E1399) increased by 68 percent, from $684 in FY 2021 to $1,151 in FY 2023. However, the number of claim line items for these items billed decreased by 2 percent, from 18,836 claim line items in FY 2021 to 18,458 claim line items in FY 2023.
- Miscellaneous DME supply or accessory, not otherwise specified (A9999), increased more than 300 percent, from $142 in FY 2021 to $600 in FY 2023. However, the number of claims line items for these items billed decreased by 37 percent, from 29,467 claim line items in FY 2021 to 18,619 claim line items in FY 2023.

Figure 7. Increases in Amount Paid per Line Item (Left) and Changes in Number of Units for Select Miscellaneous Procedure Codes (Right) from FY 2021 Through FY 2023

Source: Military Health System Data Repository, April 8, 2024.

The DHA paid unreasonable TRICARE payments for intermittent limb compression devices (E0676). For example, the DHA routinely paid a TRICARE provider $5,000 monthly for renting an intermittent limb compression device. The provider advertised two different models of compression devices on its website, Model A and Model B. Although we do not know which compression device the TRICARE supplier provided, we identified that other suppliers charged the public significantly less for the two compression devices, as shown in Table 3.

Table 3. Unreasonable Claims Paid to Providers for Durable Medical Equipment Identified Under Miscellaneous Procedure Code E0676

Compression Device Model	Amount Paid by TRICARE to Supplier: Rented Cost	Amount Listed by Other Supplier (Supplier A): Rental Price	Amount Listed by Other Supplier (Supplier B): Purchase Price	Amount Listed by Other Supplier (Supplier C): Purchase Price
Model A	$5,000 per month	$675 per 4 weeks		
Model B			$409.50	
[redacted]				
Model C				$4,495*

Note: Model A and Model C are produced by the same manufacturer. Model C is an updated model of Model A. However, Supplier A rents the older compression device model at a monthly rental price that exceeds Supplier C's purchase price of the newer Model C device.

Source: The DoD OIG.

The DHA HCFR used data analytics to also identify potentially unreasonable TRICARE payments for miscellaneous codes that did not have reimbursement rates. Specifically, the DHA HCFR identified potentially unreasonable TRICARE payments for the same miscellaneous procedure codes—A9999, E0676, and E1399—that we also identified as high-risk payments. For example, the DHA HCFR identified a "huge spike" in TRICARE payments to a health care provider of $6,500 per month to rent a compression device, which was the same model as Model A that we identified as potentially unreasonable in Table 3. The DHA TRICARE Health Plan personnel stated that they are aware of the increases and are working with the DHA HCFR and the Managed Care Support Contractors to identify causes for the increases.

The DoD also received an allegation to the DoD Hotline for possible improper billing of DME that may have resulted in out-of-pocket costs to the beneficiary. The DoD OIG referred the DoD Hotline allegation to the DHA.

While the DHA issued reimbursement rates for certain health care services and items that did not have a TRICARE reimbursement rate, the DHA did not provide the authority to the TRICARE East and West Region contractors to explicitly allow them to create new reimbursement rates for procedure codes that did not have TRICARE reimbursement rates before July 2024. As a result, the DHA likely paid unreasonable prices for some health care services and items identified under miscellaneous procedure codes that did not have reimbursement rates. However, during the audit, the DHA issued TRICARE policy to allow the TRICARE East and West Region contractors to use alternative pricing methods to pay for procedure codes that do not have TRICARE reimbursement rates. Specifically, the DHA issued the policy on July 18, 2024, to resolve a recommendation in the DoD OIG's 2019 report, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates," that recommended the DHA review TRICARE policy to include guidance on reasonable costs. Therefore, the new policy will allow the TRICARE East and West Region contractors to establish reimbursement rates for miscellaneous procedure codes that do not have rates. However, the policy does not include an oversight mechanism to ensure the reasonableness of the new rates developed by the TRICARE East and West Region contractors. The DHA Director should develop and implement an oversight mechanism to ensure that the TRICARE East and West Region contractors take timely and appropriate action to ensure the reasonableness of the new reimbursement rates in accordance with TRICARE Reimbursement Manual, Chapter 1, Addendum E, "Controls for Excessive Charges for Professional Services, and Durable Medical Equipment, Prosthetics, Orthotics, And Supplies/Parenteral And Enteral Nutrition (DMEPOS/PEN) Services without Established Rates."

Conclusion

The TRICARE East and West Region contractors are at risk of paying inconsistent and unreasonable prices across different states when TRICARE East and West Region contractors apply state prevailing rates. Also, the TRICARE East and West Region contractors were at risk of paying unreasonable prices for miscellaneous procedure codes without reimbursement rates; however, the new TRICARE policy, if implemented effectively, should reduce the risk of paying inconsistent and unreasonable prices for procedures captured by these miscellaneous procedure codes.

The new TRICARE policy, if implemented effectively, should reduce the risk of paying inconsistent and unreasonable prices.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Director, Defense Health Agency:

a. Reassess and revise the state prevailing rate methodology within the TRICARE guidance to ensure the development of reasonable state prevailing rates.

Defense Health Agency Acting Director Comments

The DHA Acting Director agreed with the recommendation, stating that the DHA has initiated a comprehensive review of the state prevailing rate methodology. The Acting Director stated that following their review, the DHA will develop a transparent validation mechanism to ensure prevailing rates are reasonable and consistent. The Acting Director further stated that the process may necessitate modifying the applicable Code of Federal Regulations through rulemaking, which would add complexity and considerable lead time to the recommended actions. The Acting Director estimated a completion date of March 20, 2030; however, the DHA may be able to complete this review within 18 months if rulemaking is not required.

Our Response

Comments from the Acting Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DHA reassessed and revised its state prevailing rate methodology in TRICARE guidance to ensure the development of reasonable state prevailing rates.

b. Develop and issue guidance to require Health Care Fraud Resolution, or another appropriate office, to review the developed state prevailing rates for reasonableness and consistency on an annual basis.

Defense Health Agency Acting Director Comments

The DHA Acting Director agreed with the recommendation, stating that as part of the state prevailing rate methodology review being developed in Recommendation 1.a, the DHA will issue guidance to the appropriate DHA stakeholders to ensure these rates are reviewed for reasonableness and consistency on an annual basis. The Acting Director estimated a completion date of March 20, 2030; however, the DHA may be able to complete this review within 18 months if rulemaking is not required.

Our Response

Comments from the Acting Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DHA developed and issued guidance to require an appropriate office to review the developed state prevailing rates for reasonableness and consistency on an annual basis.

c. Develop and implement an oversight mechanism to ensure that the TRICARE East and West Region contractors take timely and appropriate action to ensure the reasonableness of the new reimbursement rates in accordance with TRICARE Reimbursement Manual, Chapter 1, Addendum E, "Controls for Excessive Charges For Professional Services, And Durable Medical Equipment, Prosthetics, Orthotics, And Supplies/Parenteral And Enteral Nutrition (DMEPOS/PEN) Services Without Established Rates."

Defense Health Agency Acting Director Comments

The DHA Acting Director agreed with the recommendation, stating that they will develop and implement an oversight mechanism in conjunction with the new state prevailing rate methodology stated in Recommendations 1.a and 1.b. The Acting Director estimated a completion date of March 20, 2030; however, the DHA may be able to complete this review within 18 months if rulemaking is not required.

Our Response

Comments from the Acting Director addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DHA developed and implemented an oversight mechanism to ensure that the TRICARE East and West Region contractors take timely and appropriate action to ensure the reasonableness of the new reimbursement rates.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2023 through February 2025 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.

Documentation, Interviews, and Observations

We reviewed the following regulations and guidance.

- Public Law 101-511, "Defense Appropriations Act for Fiscal Year 1991," 1990
- Government Accountability Office GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014
- Title 32 National Defense, Part 199 Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), Part 199.14: Provider Reimbursement Methods
- TRICARE Operations Manual 6010.59-M, April 2015
- TRICARE Reimbursement Manual 6010.61-M, April 2015
- TRICARE Operations Manual 6010.62-M, April 2021
- TRICARE Policy Manual 6010.63-M, April 2021
- TRICARE Reimbursement Manual 6010.64-M, April 2021

We interviewed and briefed key officials at the DHA, including personnel at the Medical Benefits and Reimbursement Branch, HCFR, and the J-5/Analytics and Evaluation Branch.

We reviewed various supporting documents to determine the types of monitoring performed as well as the results of the monitoring efforts. For instance, we reviewed reports from the DHA's independent contractor summarizing the error rate for TRICARE payments. We also examined HCFR annual reports and administrative documents.

We examined TRICARE claims data for health care provided from FY 2021 through FY 2023 that was paid under the two reimbursement methodologies—paid-as-billed and state prevailing rates. We also examined TRICARE claims for three miscellaneous procedure codes that had the highest increase in payments for health care provided from FY 2021 through FY 2023.

We also identified the 15 highest paid procedure codes for which the TRICARE East and West Region contractors used state prevailing rates to pay TRICARE health care providers. We determined that the highest state prevailing rates for 9 of the 15 procedure codes exceeded the lowest state prevailing rate by more than 300 percent. We further analyzed the state prevailing rates for the nine procedure codes in Table 2 and Appendix B.

Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. Specifically, we assessed whether DHA officials were effectively monitoring TRICARE payments and taking appropriate actions to limit incorrect and unreasonable payments. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We used computer-processed data from the Military Health System Data Repository. Specifically, we extracted data for TRICARE payments that were paid by the TRICARE East and West Region contractors for health care provided from FY 2021 through FY 2023 under the contractors' pricing methodology of state prevailing rate or paid-as-billed. Also, we extracted data for three miscellaneous codes that had the highest increase in payments for health care provided from FY 2021 through FY 2023. To assess the reliability of the claims data from the data repository, we used a simple random sample to compare key information obtained from TRICARE explanations of benefits to TRICARE claims data from the Military Health System Data Repository. We identified no errors in our review.

Use of Technical Assistance

We obtained support from the DoD OIG Quantitative Methods Division in developing a statistical sample used to test computer-processed data.

Prior Coverage

During the last five years, the DoD Office of Inspector General (DoD OIG) issued four reports discussing monitoring TRICARE payments and taking appropriate actions to limit incorrect and unreasonable payments. Unrestricted DoD OIG reports can be accessed at http://www.dodig.mil/reports.html/.

DoD OIG

Report No. DODIG-2022-122, "Audit of TRICARE Ambulance Transportation Reimbursements," August 17, 2022

> The DoD OIG determined that the DHA, through its contractors, made improper payments for ground ambulance transportation services. In addition, the Military Health System Data Repository contained inaccurate and incomplete transport and payment information. As a result, without sufficient medical documentation and adequate controls, the DHA will continue to incur millions of dollars in improper payments on ground ambulance transports.

Report No. DODIG-2022-047, "Audit of TRICARE Telehealth Payments," February 3, 2022

> The DoD OIG determined that the DHA improperly paid claims for FY 2020 telehealth services. We obtained a sample of 166 claims for FY 2020 originating site fee claims and 389 additional related claims. As a result of the improperly paid telehealth claims, the DoD OIG projected that the DHA potentially overpaid health care providers for originating site fees by $620,162 from October 2019 through June 2020. Furthermore, improperly coded claims may result in under- or over-reporting of telehealth use by TRICARE beneficiaries, which could adversely affect DHA resourcing decisions.

Report No. DODIG-2022-052, "Audit of Defense Health Agency's Reporting of Improper Payment Estimates for the Military Health Benefits Program," January 11, 2022

> The DoD OIG determined that the DHA did not have adequate processes to identify improper payments and produce a reliable improper payment estimate for the Military Health Benefits Program for the FY 2021 reporting period. As a result, the DHA was unable to effectively identify improper payments and will not produce a reliable improper payment estimate for the MHB Program for FY 2021.

Report No. DODIG-2019-112, "Audit of TRICARE Payments for Health Care Services and Equipment That Were Paid Without Maximum Allowable Reimbursement Rates," August 20, 2019

The DoD OIG determined that the DHA regularly paid more than other pricing benchmarks for services and equipment for which it did not establish or use existing TRICARE maximum allowable reimbursement rates. As a result, the 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.

Appendix B

State Prevailing Rates for Select Procedure Codes

The DHA allowed state prevailing rates that varied significantly for the same procedure code across the United States. Rates also varied significantly across states in the same geographical area. This appendix shows the wide variance for 9 of the 554 procedure codes that had state prevailing rates. We chose these procedure codes because they represented nine of the highest paid procedure codes in FY 2023.

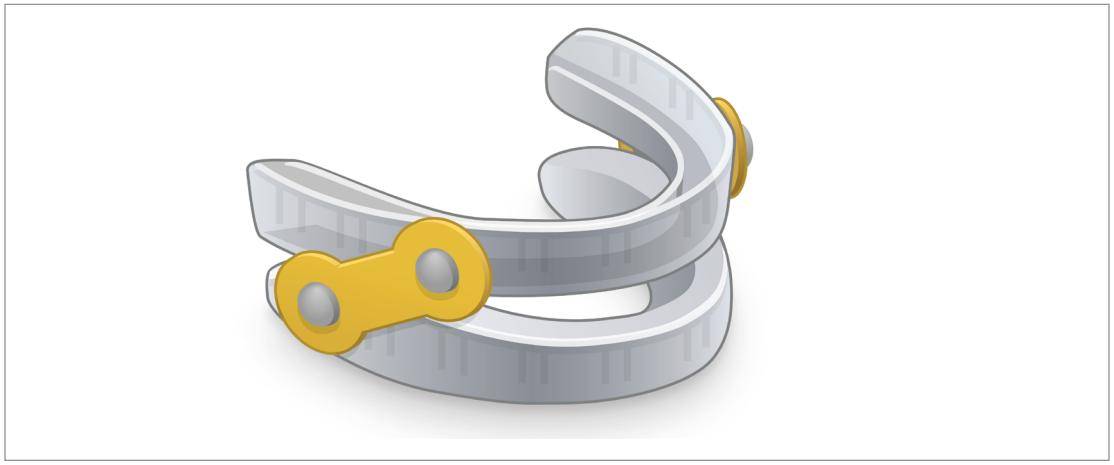
HCPCS Level II Code E0486 – Rental Sleep Apnea Mouthguards

The DHA allowed state prevailing rates for rental oral appliances used to treat obstructive sleep apnea, as shown in Figure 8, that ranged from $207 (South Dakota) to $5,000 (South Carolina), as shown in Figure 9. The highest rate of $5,000 was 985 percent higher than the national average rate of $461 and 2,315 percent higher than the lowest rate of $207.

Also, the DHA allowed a rental rate that well exceeded the purchase rate (non-rental) for new mouthguards in the same state. The TRICARE East Region contractor established a rental rate of $5,000 for a mouthguard in South Carolina, while the contractor established a purchase rate of $2,500 for a new mouthguard in South Carolina, as shown in Figure 4.

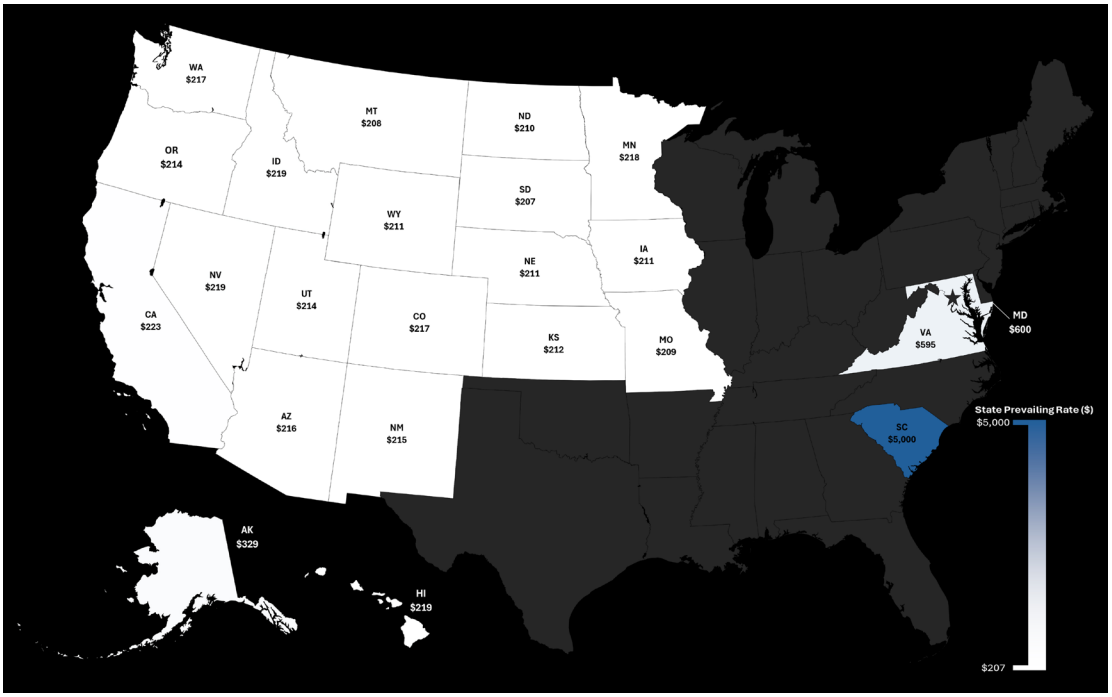
The Centers for Medicare and Medicaid Services (CMS), which is responsible for maintaining HCPCS Level II codes, stated, "A custom fabricated oral appliance (E0486) is one that is uniquely made for an individual beneficiary … either using appropriate materials or digital images … ." Therefore, a rental rate does not appear to fit the CMS definition because the mouthguard is customized for an individual beneficiary.

Figure 8. Example of HCPCS E0486 – Sleep Apnea Mouthguard



Source: The DoD OIG.

Figure 9. TRICARE State Prevailing Rates for Rental Sleep Apnea Mouthguards (HCPCS E0486)



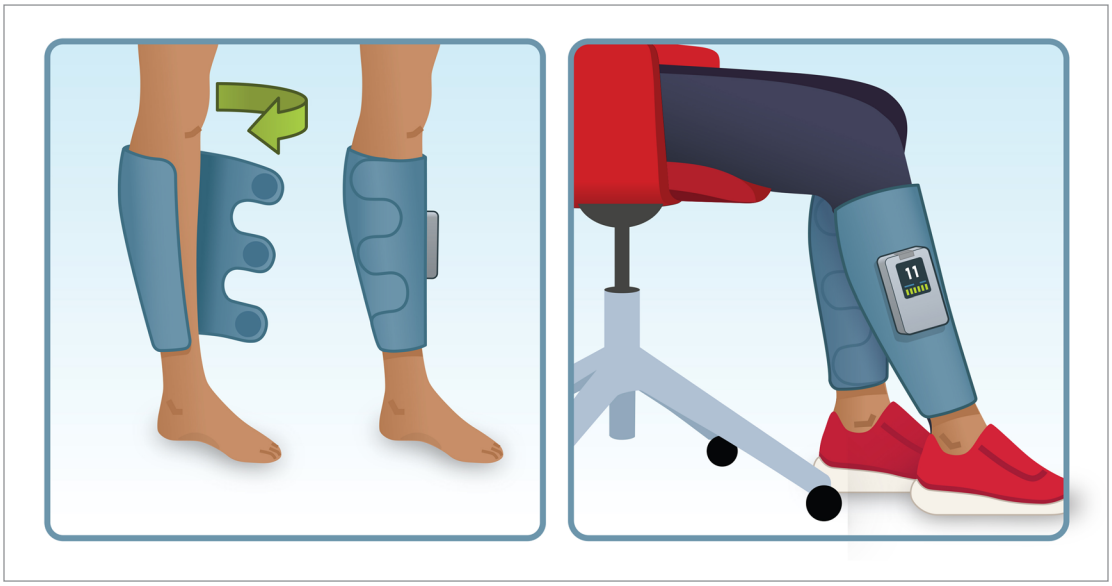
Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for E0486 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

HCPCS Level II Code E0676 – Intermittent Limb Compression Device, Not Otherwise Specified

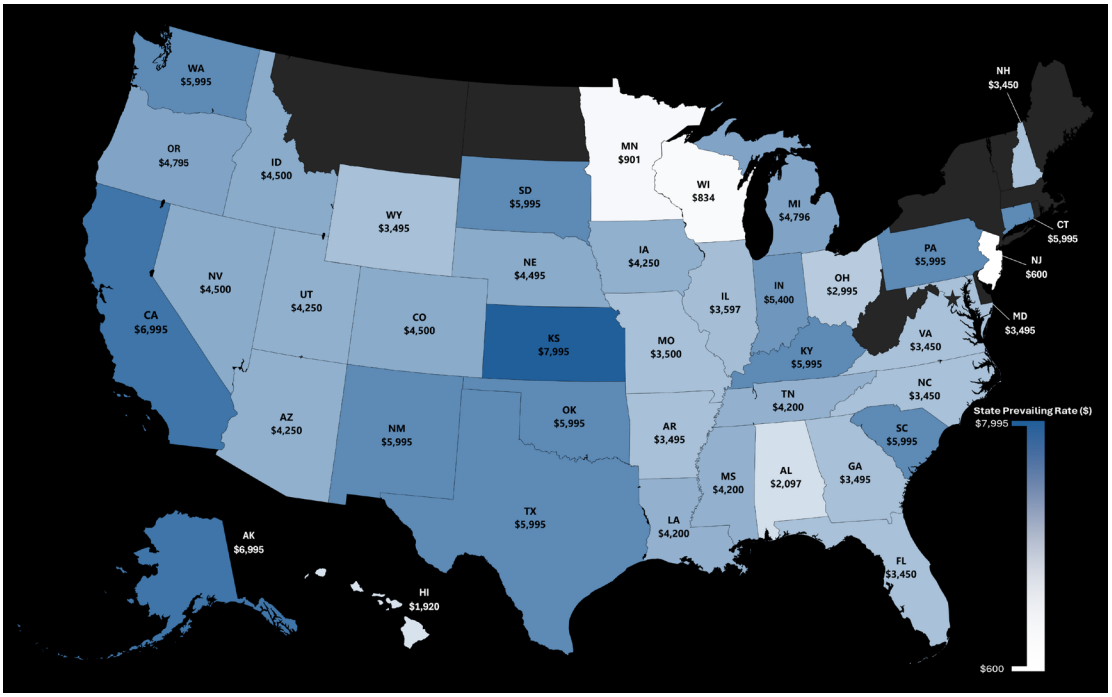
The DHA allowed state prevailing rates for new intermittent limb compression devices, as shown in Figure 10, that ranged from $600 (New Jersey) to $7,995 (Kansas), as shown in Figure 11. The highest rate of $7,995 is 84 percent higher than the national average rate of $4,354 and 1,233 percent higher than the lowest rate of $600. The CMS stated, "An E0676 is a [pneumatic compression device] that delivers pressure and inflation/deflation cycles for the prevention of deep venous thrombosis."

Figure 10. Examples of HCPCS E0676 – Intermittent Limb Compression Devices



Source: The DoD OIG.

Figure 11. TRICARE State Prevailing Rates for the Purchase of New Intermittent Limb Compression Devices (HCPCS E0676)

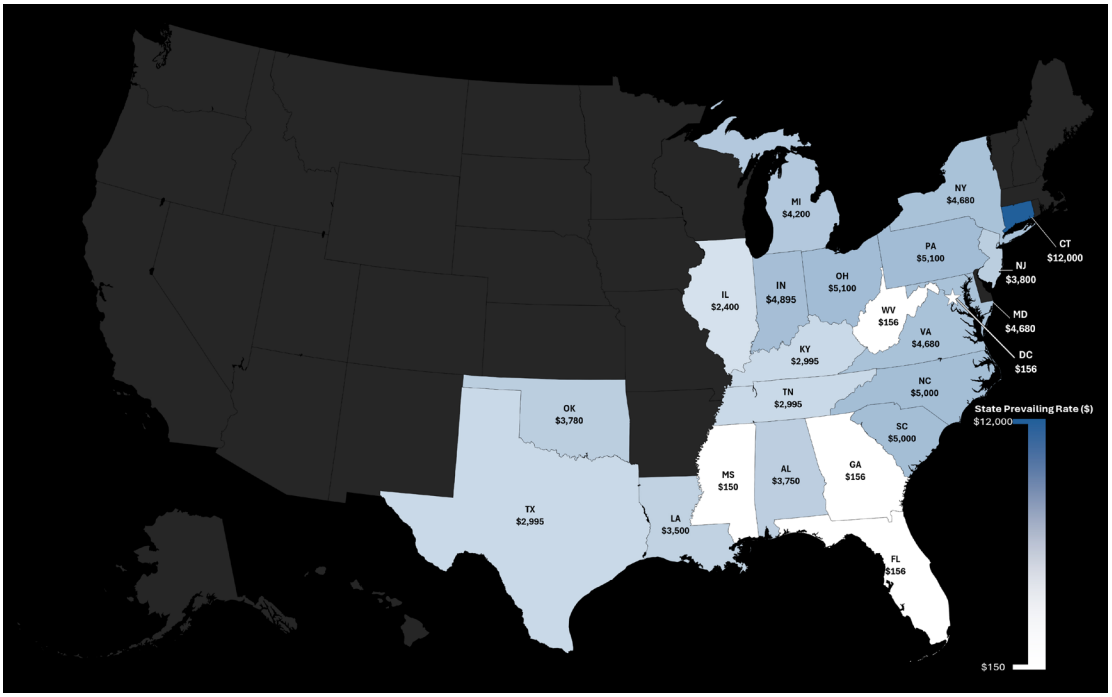


Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for E0676 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

The DHA allowed state prevailing rates for rental intermittent limb compression devices that ranged from $150 (Mississippi) to $12,000 (Connecticut), as shown in Figure 12. The highest rate of $12,000 is 235 percent higher than the national average rate of $3,579 and 7,900 percent higher than the lowest rate of $150.

Figure 12. TRICARE State Prevailing Rates for the Rental of Intermittent Limb Compression Devices (HCPCS E0676)



Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for E0676 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

Furthermore, the DHA allowed a rental rate for these compression devices that well exceeded the purchase rate (non-rental) for new compression devices in seven states, as shown in Table 4. The rental rates exceeded the purchase price rates by as much as 533 percent and $6,005. For example, the TRICARE East Region Managed Care Support Contractor established a rental rate of $12,000 for a compression device in Connecticut, and it established a purchase rate of $5,995 for a new compression device in Connecticut, as shown in Table 4. We have concerns about a state prevailing rate for a rental device exceeding the purchase rate for a new compression device. In fact, a DME supplier could rent a compression device for $12,000 for many months, which would greatly

increase the total cost of a compression device that may otherwise be provided at a much lower cost if purchased new. Moreover, TRICARE Reimbursement Manual 6010.61-M, April 1, 2015, Chapter 1, Section 11, states that the contractor may calculate payment for durable medical equipment as the lower of the total rental cost or the reasonable purchase cost, including the delivery charge, pick-up charge, shipping and handling charges, and taxes.

Table 4. States with Higher Rates for Rentals than Purchases of New Intermittent Limb Compression Devices (HCPCS E0676)

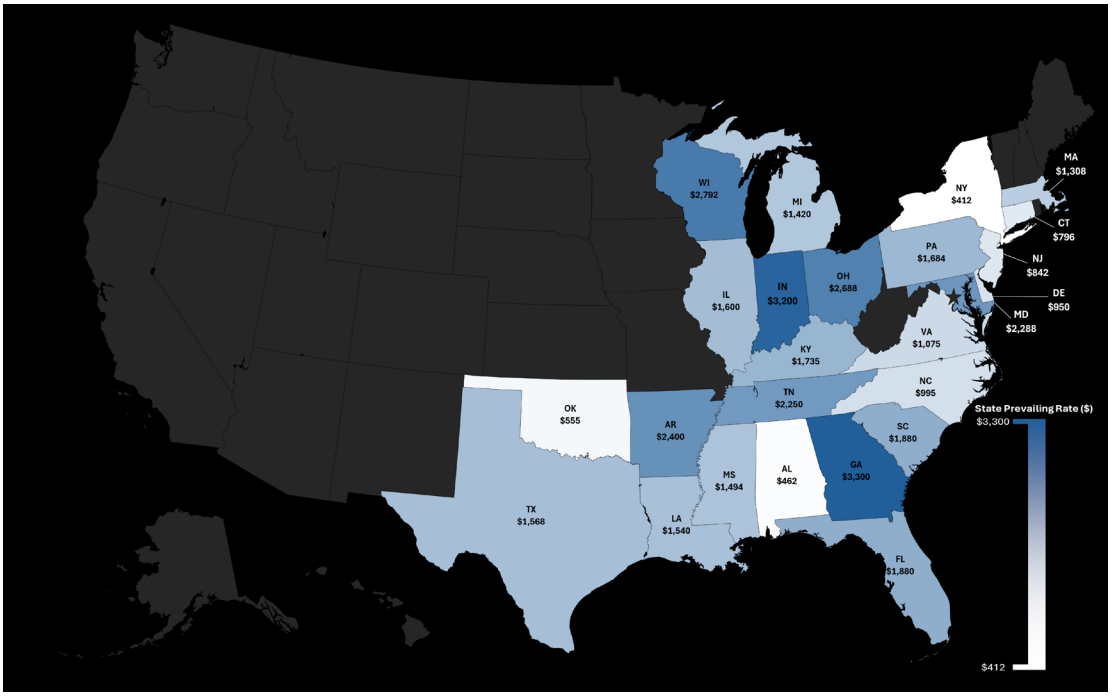
State	State Prevailing Rate: Monthly Rental	State Prevailing Rate: New Purchase	Price Difference	Percent Difference
Connecticut	$12,000	$5,995	$6,005	100.2%
Ohio	5,100	2,995	2,105	70.3
North Carolina	5,000	3,450	1,550	44.9
Virginia	4,680	3,450	1,230	35.7
Maryland	4,680	3,495	1,185	33.9
Alabama	3,750	2,097	1,653	78.8
New Jersey	3,800	600	3,200	533.3

Source: Humana Military.

HCPCS Level II Code L8699 – Prosthetic Implant, Not Otherwise Specified

The DHA allowed state prevailing rates for miscellaneous prosthetic implants that ranged from $412 (New York) to $3,300 (Georgia), as shown in Figure 13. The highest rate of $3,300 is 101 percent higher than the national average rate of $1,645 and 701 percent higher than the lowest rate of $412. HCPCS procedure codes ranging from HCPCS L5000 to L9900 identify prosthetic items, such as arm and leg prostheses, and cochlear devices. However, HCPCS L8699 identifies a prosthetic implant that was not otherwise identified by an existing prosthetic procedure code.

Figure 13. TRICARE State Prevailing Rates for Prosthetic Implants (HCPCS L8699)



Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for L8699 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

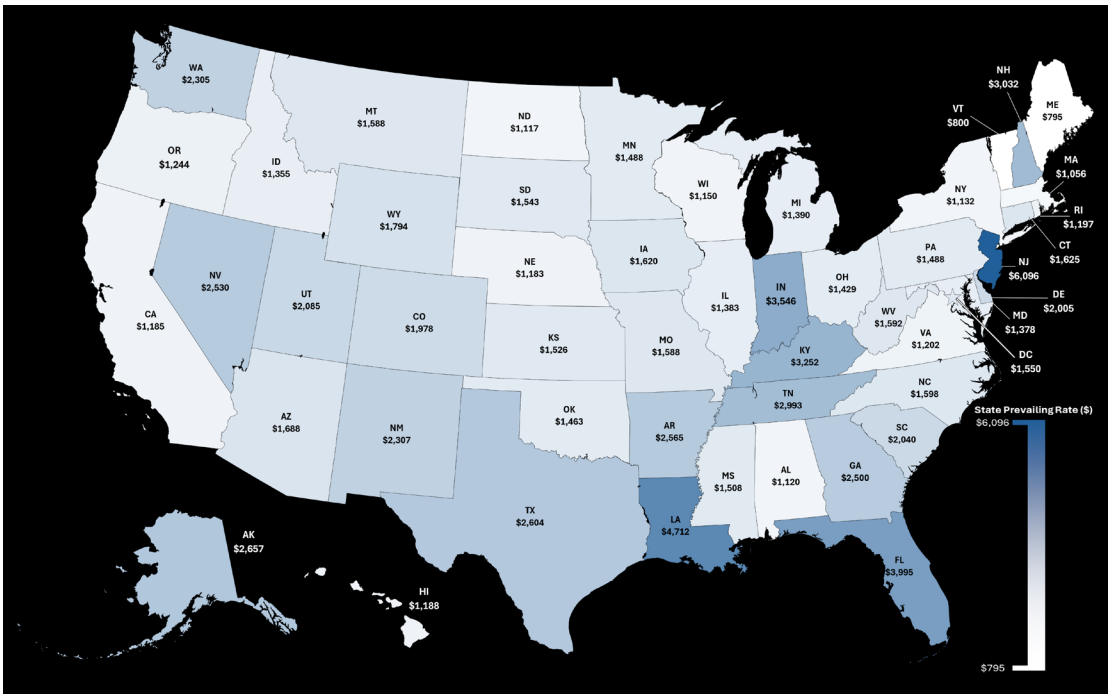
HCPCS Level II Code C1713 – Anchor/Screw for Opposing Bone-to-Bone or Soft Tissue-to-Bone (Implantable)

The DHA allowed state prevailing rates for implantable anchors and screws, as shown in Figure 14, that ranged from $795 (Maine) to $6,096 (New Jersey), as shown in Figure 15. The highest rate of $6,096 is 217 percent higher than the national average rate of $1,925 and 667 percent higher than the lowest rate of $795. Procedure code C1713 identifies implantable anchors and screws. For example, the American Academy of Orthopaedic Surgeons stated, "During a surgical procedure to set a fracture, the bone fragments are first repositioned … into their normal alignment" and "are held together with special implants, such as plates, screws, nails and wires." The Academy stated, "The implants used for internal fixation are made from stainless steel and titanium, which are durable and strong," and "If a joint is to be replaced, rather than fixed, these implants can also be made of cobalt and chrome."

Figure 14. Example of HCPCS C1713 – Implantable Bone/Soft Tissue Anchors

Source: The DoD OIG.

Figure 15. TRICARE State Prevailing Rates for Implantable Bone/Soft Tissue Anchors (HCPCS C1713)

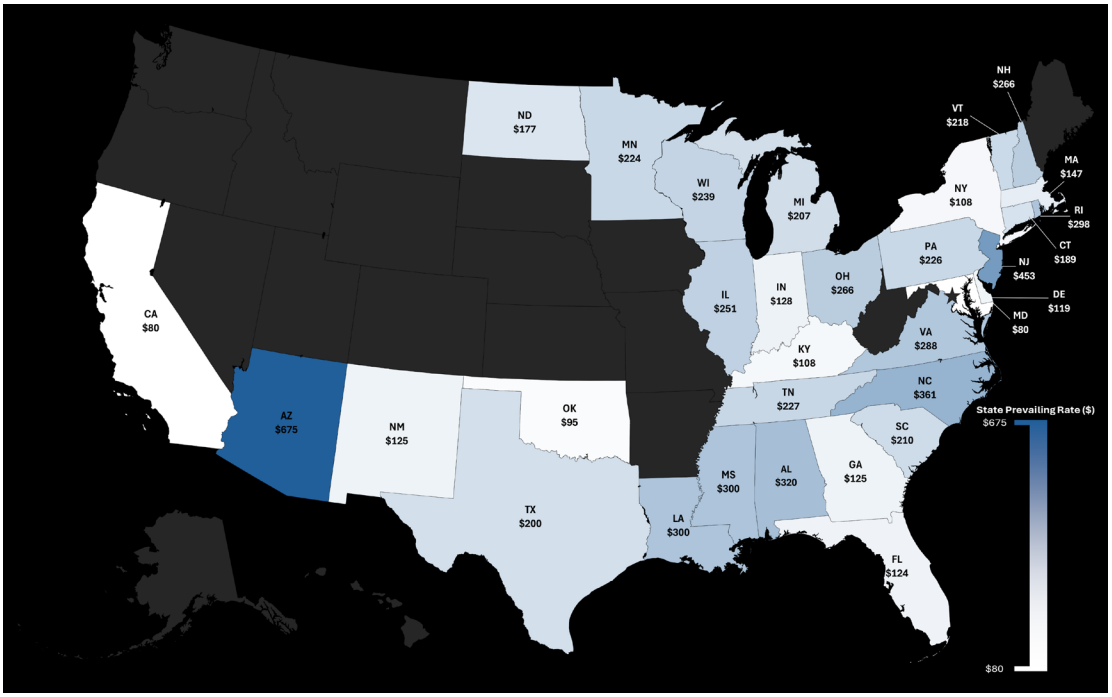


Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

HCPCS Level II Code G0177– Training and Educational Services Related to the Care and Treatment of a Patient's Disabling Mental Health Problems, Per Session (45 Minutes or More)

The DHA allowed state prevailing rates for mental health training and educational services that ranged from $80 (California) to $675 (Arizona), as shown in Figure 16. The highest rate of $675 is 203 percent higher than the national average rate of $223 and 744 percent higher than the lowest rate of $80.

Figure 16. TRICARE State Prevailing Rates for Mental Health Training and Educational Services (HCPCS G0177)



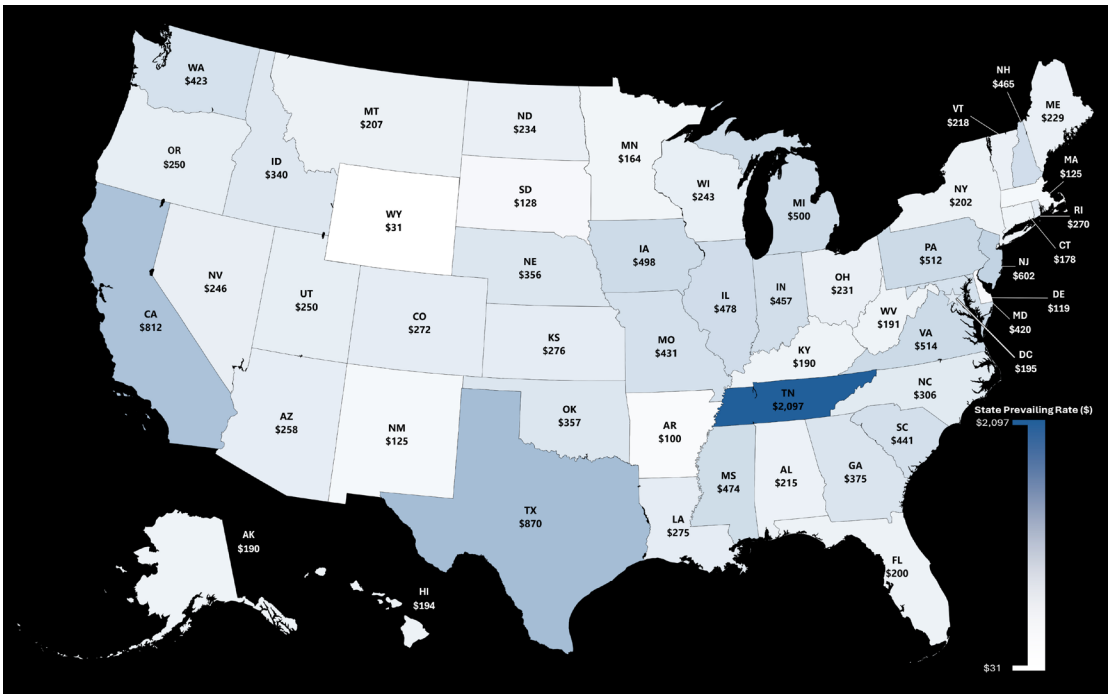
Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for G0177 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

HCPCS Level II Code G0410– Group Psychotherapy Other Than of a Multiple-Family Group, in a Partial Hospitalization or Intensive Outpatient Setting, 45 to 50 Minutes

The DHA allowed state prevailing rates for group psychotherapy services that ranged from $31 (Wyoming) to $2,097 (Tennessee), as shown in Figure 17. The highest rate of $2,097 is 503 percent higher than the national average rate of $348 and 6,665 percent higher than the lowest rate of $31.

Figure 17. TRICARE State Prevailing Rates for Group Psychotherapy Services (HCPCS G0410)

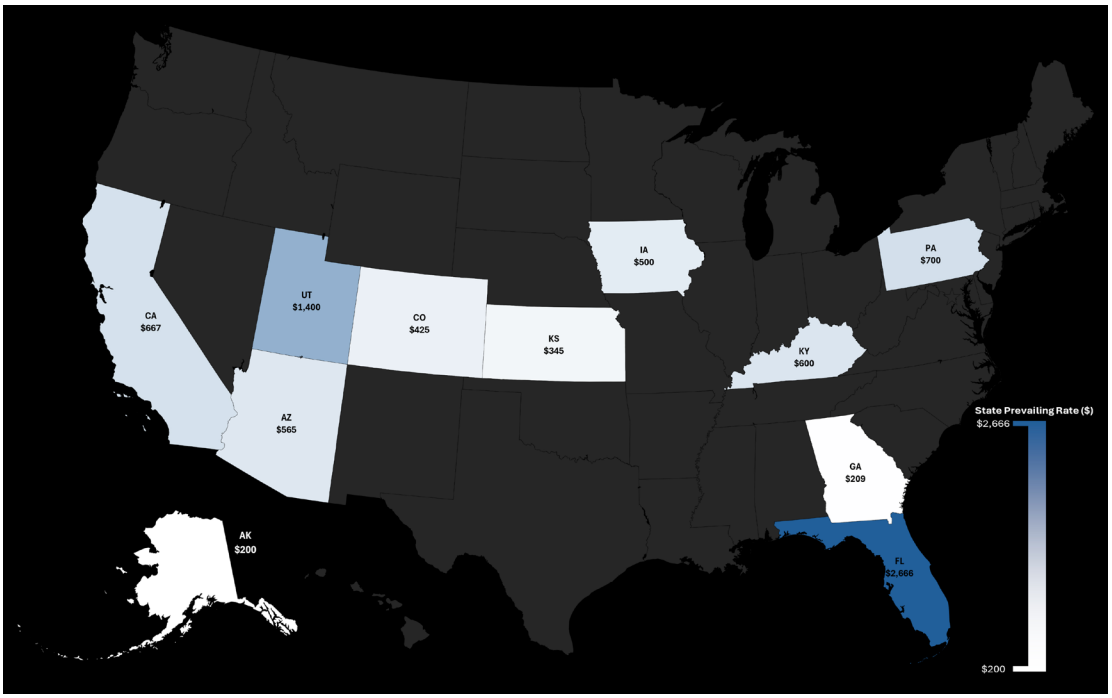


Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

HCPCS Level II Code H0018– Behavioral Health; Short-Term Residential (Non-Hospital Residential Treatment Program), Without Room and Board, Per Diem

The DHA allowed state prevailing rates for short-term behavioral health services that ranged from $200 (Alaska) to $2,666 (Florida), as shown in Figure 18. The highest rate of $2,666 is 255 percent higher than the national average rate of $752 and 1,233 percent higher than the lowest rate of $200. HCPCS H0018 identifies a per diem rate for behavioral health services in a short-term residential, non-hospital setting.

Figure 18. TRICARE State Prevailing Rates for Short-Term Behavioral Health Services (HCPCS H0018)



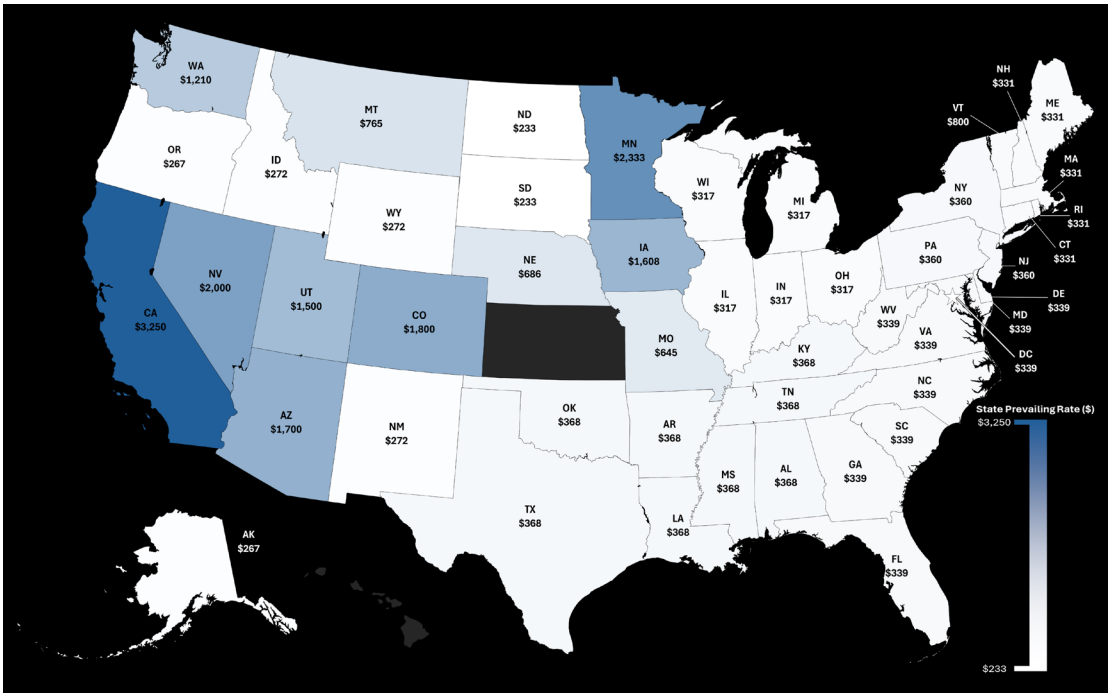
Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for H0018 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, August 2024.

HCPCS Level II Code H0035 – Mental Health, Partial Hospitalization, Treatment, Less than 24 Hours

The DHA allowed state prevailing rates for the treatment of mental health services in a partial hospitalization setting of less than 24 hours that ranged from $233 (South Dakota and North Dakota) to $3,250 (California), as shown in Figure 19. The highest rate of $3,250 is 432 percent higher than the national average rate of $611 and 1,295 percent higher than the lowest rate of $233.

Figure 19. TRICARE State Prevailing Rates for Mental Health Services for Less than 24 Hours (HCPCS H0035)

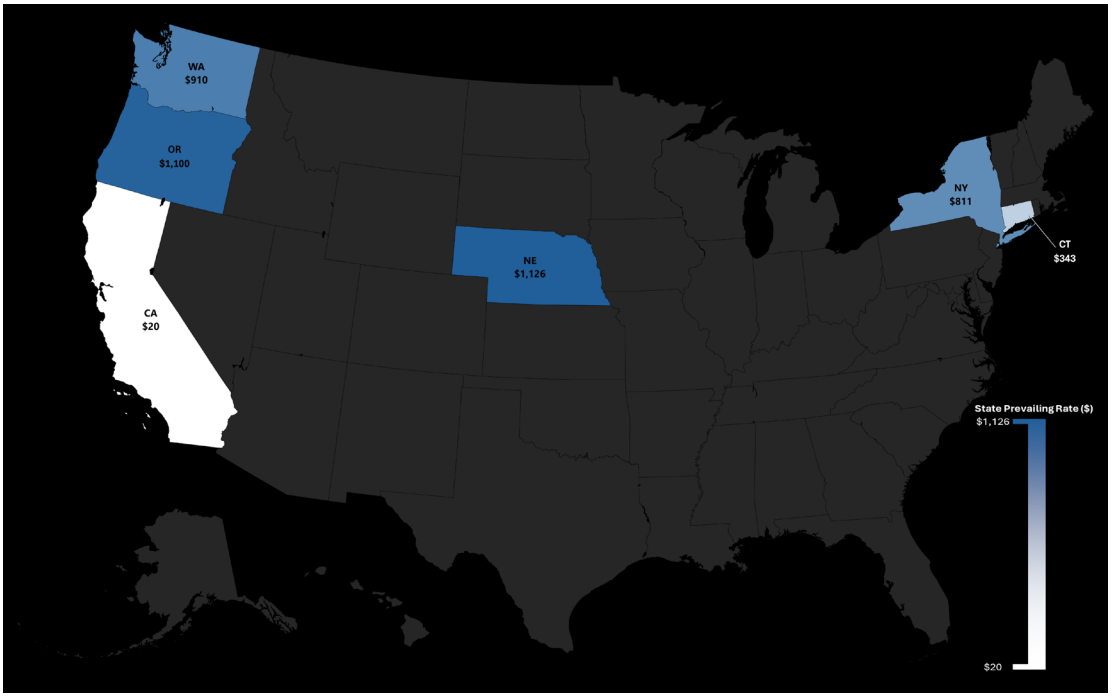


Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, December 2024.

HCPCS Level II Code H2013 – Psychiatric Health Facility Services, Per Diem

The DHA allowed state prevailing rates for psychiatric health facility services that ranged from $20 (California) to $1,126 (Nebraska), as shown in Figure 20. The highest rate of $1,126 is 95 percent higher than the national average rate of $577 and 5,530 percent higher than the lowest rate of $20. HCPCS H2013 identifies a per diem rate for psychiatric health facility services.

Figure 20. TRICARE State Prevailing Rates for Psychiatric Health Facility Services (HCPCS H2013)



Note: The TRICARE East and West Region contractors did not develop a state prevailing rate for H2013 for every state; therefore, some states in the figure do not have a rate.

Source: The DoD OIG, Microsoft Excel powered by Bing and ©GeoNames, Microsoft, and TomTom, December 2024.

DHA TRICARE State Prevailing Rates Exceeded Other Benchmarks

The DHA's state prevailing rates significantly exceeded similarly developed rates developed by FAIR Health. According to its website, FAIR Health is a national not-for-profit organization that analyzes the health care costs of 48 billion private health care claim records and 45 billion Medicare claim records for 10,000 services in all areas of the United States, dating back to 2002. Similar to the DHA's policy on developing state prevailing rates, FAIR Health calculated its rates using the 80th percentile from the private and federal claims data that it maintains. Organizations, such as the Department of Veterans Affairs, rely on FAIR Health's data to establish rates for services and items that do not have reimbursement rates.[12] We searched the FAIR Health website and found that FAIR Health's rates were significantly lower than the highest DHA state prevailing rate for seven of the nine procedure codes that we identified in this audit report, as shown in Table 5. In fact, there were only three instances in which FAIR Health's 80th percentile rates exceeded the DHA's state prevailing rate, as shown in Table 5.

[12] The Department of Veterans Affairs applies the 80th percentile to obtain rates for CPT/HCPCS codes which do not have established reimbursement rates. Specifically, Title 38 Code of Federal Regulations (CFR) Section 17.101 states, "Nationwide 80th percentile billed charge levels by CPT/HCPCS code are computed from the outpatient facility component of the FAIR Health database, from the MarketScan claims database, and from the outpatient facility component of the Medicare Standard Analytical File 5-Percent Sample."

Table 5. Comparison of TRICARE and FAIR Health State Prevailing Rates

Procedure Code[1]	Highest DHA State Prevailing Rate	FAIR Health 80th Percentile Rate		Difference Between DHA and FAIR Health	
		In-Network Rate	Out-of-Network Rate	In-Network	Out-of-Network
E0676	Connecticut $12,000	Stamford, CT		$11,887	$11,638
		$113	$362		
G0410	Tennessee 2,097	Nashville, TN		1,965	1,676
		132	421		
C1713	New Jersey 6,096	Newark, NJ		5,641	4,590
		455	1,506		
E0486	Illinois 11,500	Chicago, IL		8,122	2,315
		3,378	9,185		
G0177	Arizona 675	Phoenix, AZ		555	398
		120	277		
H0035	California 3,250	San Francisco, CA		1,899	1,350
		1,351	1,900		
H2013	Nebraska 1,126	Lincoln, NE		(379)	(680)
		1,505	1,806		
H0018	Florida 2,666	Orlando, FL		1,851	(886)
		815	3,552		
L8699	Georgia 3,300	No Information[2]	No Information	N/A	N/A

[1] See Table 2 for a description of the procedure codes.

[2] FAIR Health stated, "This code is used for services that do not meet the definition of other procedure codes. Because the services reported are not uniform in nature, FAIR Health does not provide a cost estimate."

Source: FAIR Health.

Management Comments

Defense Health Agency

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

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Inspector General Draft Report, "Audit of the Defense Health Agency's Monitoring of TRICARE Payments" (Project No. D2024-D000AW-0026.000)

The Defense Health Agency's (DHA) response to the Department of Defense Inspector General (DoD OIG) project number D2024-D000AW-0026.000 is attached. The DHA concurs with the recommendations provided by the DoD OIG that are assigned to DHA pertaining to the DHA's efforts to monitor TRICARE payments.

My point of contact is [redacted], who can be reached at [redacted] or [redacted].

SMITH.DAVID.J.[redacted] Digitally signed by SMITH.DAVID.J.[redacted] Date: 2025.03.26 12:46:08 -04'00'

David J. Smith, M.D.
Acting Director

Attachment:
As stated

Defense Health Agency (cont'd)

DEPARTMENT OF DEFENSE (DOD) OFFICE OF THE INSPECTOR GENERAL (OIG)
DRAFT REPORT DATED FEBRUARY 18, 2025
PROJECT NO. D2024-D000AW-0026.000

"Audit of the Defense Health Agency's Monitoring of TRICARE Payments" (Project Number: D2024-D000AW-0026.000)

DEFENSE HEALTH AGENCY (DHA) RESPONSE
TO THE DOD OIG RECOMMENDATIONS

RECOMMENDATION 1a: Reassess and revise the state prevailing rate methodology within the TRICARE guidance to ensure the development of reasonable state prevailing rates.

DHA RESPONSE: Concur. We have initiated a comprehensive review of the state prevailing rate methodology and will revise, as appropriate. We note that, by regulation, the state prevailing rate methodology only applies to reimbursement of individual professional providers and other non-institutional healthcare providers. Following this review, we will develop a transparent validation mechanism to ensure prevailing rates are reasonable and consistent. This process may necessitate modifying the applicable provisions in the Code of Federal Regulations through rulemaking, adding considerable lead time to completing the recommended actions. The estimated completion date is March 20, 2030; if rulemaking is not required, the agency may be able to complete this review within 18 months.

RECOMMENDATION 1b: Develop and issue guidance to require Health Care Fraud Resolution, or another appropriate office, to review the developed state prevailing rates for reasonableness and consistency on an annual basis.

DHA RESPONSE: Concur. As part of the state prevailing rate methodology review being developed in Recommendation 1a, guidance will be issued to the appropriate Defense Health Agency stakeholders to ensure these rates are reviewed for reasonableness and consistency on an annual basis. The estimated completion date is March 20, 2030; if rulemaking is not required, the agency may be able to complete this review within 18 months.

RECOMMENDATION 1c: Develop and implement an oversight mechanism to ensure that the TRICARE East and West Region contractors take timely and appropriate action to ensure the reasonableness of the new reimbursement rates in accordance with TRICARE Reimbursement Manual, Chapter 1, Addendum E, "Controls for Excessive Charges For Professional Services, And Durable Medical Equipment, Prosthetics, Orthotics, And Supplies/Parenteral And Enteral Nutrition (DMEPOS/PEN) Services Without Established Rates."

DHA RESPONSE: Concur. An oversight mechanism will be developed and implemented in conjunction with any revisions to the state prevailing rate methodology referenced in recommendations 1a and 1b. The estimated completion date is March 20, 2030; if rulemaking is not required, the agency may be able to complete this review within 18 months.

Acronyms and Abbreviations

AMA	American Medical Association
ASD(HA)	Assistant Secretary of Defense (Health Affairs)
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CMAC	CHAMPUS Maximum Allowable Charge
CMS	Centers for Medicare and Medicaid Services
CPT	Current Procedural Terminology
CUI	Controlled Unclassified Information
DHA	Defense Health Agency
DME	Durable Medical Equipment
DMEPOS	Durable Medical Equipment Prosthetics, Orthotics, and Supplies
DoD OIG	Department of Defense Office of Inspector General
DRG	Diagnostic Related Groups
GAO	Government Accountability Office
HCFR	Health Care Fraud Resolution
HCPCS	Healthcare Common Procedure Coding System
HIPAA	Health Insurance Portability and Accountability Act
PEN	Parenteral and Enteral Nutrition


INSPECTOR GENERAL
INTEGRITY
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