

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID PAYMENT
AMOUNTS FOR OXYGEN RELATED
DURABLE MEDICAL EQUIPMENT
AND SUPPLIES**

**WISCONSIN DEPARTMENT OF
HEALTH AND FAMILY SERVICES
MADISON, WISCONSIN**



**JANET REHNQUIST
Inspector General**

**OCTOBER2001
A-05-01-00031**



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

October 18, 2001

Common Identification Number A-05-01-00031

Phyllis Dube, Secretary
Department of Health and Family Services
1 West Wilson Street, Room 650
Madison, WI 53702

Dear Ms. Dube:

This letter presents the results of our Review of Medicaid Payment Amounts for Oxygen Related Durable Medical Equipment and Supplies. We determined that providers received reimbursements for these items of durable medical equipment (DME) and supplies at rates that were higher than the Medicare allowable amount. Based on our review of payments for Medicaid DME and supply claims with dates of service during the period October 1, 1997 through June 30, 2000, savings of approximately \$685,500 could have been realized if the Medicaid rates had been limited to amounts allowable under the Medicare program. This annual savings of approximately \$250,000 would result in a cost savings of approximately \$1,250,000 over a five-year budget cycle. The higher reimbursements occurred because the State agency set the reimbursement limits for these items above the dollar amount allowed for similar items under the Medicare program. We are recommending that the State limit the maximum allowable price for DME and supplies to an amount equal to or less than the Medicare allowable amount for the same items.

BACKGROUND

The Medicaid program is jointly administered by the Federal government, through the Centers for Medicare and Medicaid Services (CMS, formerly known as Health Care Financing Administration or HCFA) and by the States, through their designated State agency. Within broad guidelines established by Federal statutes, regulations and policies, each state determines the type, amount, and scope of services and sets the rate of payment for services.

The CMS also administers the Medicare program for the elderly through regional contractors responsible for establishing fee schedules for DME, prosthetics, orthotics and supplies for designated geographic areas. The fee schedules are updated annually and as needed. The fee schedule is segregated by HCFA Common Procedure Coding System (HCPCS) numbers. Groups of HCPCS numbers are associated with specific categories of services. The oxygen category contains 17 specific HCPCS numbers.

Although the State Medicaid Manual, as issued by CMS, does not limit Medicaid DME payments to Medicare payment ceilings, limits do exist for other medical services.

Specifically, Section 6300.2 of the State Medicaid Manual, relating to “Outpatient Clinical Laboratory Tests,” states that Medicaid reimbursement for clinical diagnostic laboratory tests may not exceed the amount that Medicare recognizes for such tests. For “Federally Qualified Health Center and Other Ambulatory Services Payments,” Section 6303 states that costs cannot exceed the reasonable costs as determined by the applicable Medicare cost reimbursement principles. If similar limits were established for DME oxygen services, the Medicaid program could realize annual savings of \$250,000(\$1.25 million over 5 years).

OBJECTIVE AND SCOPE

We conducted our audit in accordance with generally accepted government auditing standards. The objective of our review was to determine if the Wisconsin Medicaid program reimbursed providers in excess of Medicare limits for items of DME and supplies used to provide oxygen. Our audit covered payments for DME and supply claims with dates of service during the period October 1, 1997 through June 30, 2000.

As part of our review, we obtained an understanding of the internal control structure relative to the payment of claims for items of DME and supplies. The objective of the audit did not require an overall assessment of these internal controls.

To accomplish our objective, we:

- Identified the codes used to claim reimbursement for oxygen related DME and supplies provided to Wisconsin Medicaid recipients,
- Obtained the Wisconsin Medicare payment limits for items of oxygen related DME and supplies,
- Obtained Medicaid claims data for all HCPCS numbers identified as oxygen related DME and supplies under the Medicare fee schedule, and
- Calculated the potential savings associated with limiting the Medicaid payment amount to the applicable Medicare payment limit.

RESULTS OF REVIEW

We identified 72,035 paid claims, amounting to \$7.7 million, for oxygen related DME and supplies provided to Medicaid recipients during our 33-month audit period. A comparison of the State Medicaid Supply List to the Medicare HCPCS numbers identified payment data for 15 of the 17 HCPCS numbers classified as oxygen related equipment and supplies under the Medicare fee schedule. We determined that Medicaid reimbursements for 9 of the 15 oxygen related HCPCS numbers exceeded the associated amounts allowable under the Medicare fee schedule.

We attribute the higher Medicaid payment levels to recent changes in the Medicare fee schedules under the Balanced Budget Act of 1997, which substantially reduced the payment levels for numerous Medicare items. The Act stated that for 1998, the national payment limit for oxygen and oxygen equipment is the 1997 limit reduced by 25 percent. The payment limit for 1999 and each subsequent year is the 1997 limit reduced by 30 percent. The State did not implement corresponding reductions to the Medicaid fee schedule established for oxygen related equipment and supplies.

As a result, if the Medicaid rates for oxygen related DME and supplies were limited to amounts allowable under the Medicare program, savings of approximately \$685,500 could have been realized. This represents annual savings of approximately \$250,000 or \$1.25 million over a five-year budget cycle. The following schedule summarizes the savings by HCPCS number during the audit period.

HCPCS	Number of Medicaid Payments Exceeding Medicare Fee Amounts	Medicaid Payments in Excess of Medicare Fee Schedule Amount
0A4619	10	\$ 151
0A4621	2,085	38,848
0E0431	13,623	226,869
0E0434	3,920	26,011
0E1400	35,096	342,166
0E1401	2,344	24,912
0E1402	803	7,852
0E1403	1,630	16,022
0E1404	240	2,664
Total:	59,751	\$ 685,495

The attached schedule (Appendix A) provides the Medicare fee schedule amount, the number of payments involved, and the associated dollar amounts over the Medicare fee schedule for these HCPCS numbers for each year of the audit period.

RECOMMENDATION

We recommend that the Department of Health and Family Services:

- Revise the Medicaid payment limits for oxygen related DME and supplies to amounts that do not exceed the associated limits under the Medicare fee schedule.

STATE AGENCY COMMENTS AND OAS RESPONSE

The State agency disagrees with our recommendation to reduce its Medicaid reimbursement levels to correspond with the Medicare limits. After the Balanced Budget Act of 1997 mandated reductions in Medicare reimbursements levels, the State agency reviewed the payment limits and determined that the amounts were not adequate to maintain a sufficient number of providers who would be willing to continue to serve

Medicaid recipients. Thus, the Department maintained the existing reimbursement levels to encourage providers to remain in the program and continue to provide essential services. The full text of the Department's response is included as an attachment to this report.

We contacted the Regional DME Medicare Contractor to determine whether oxygen related DME providers had dropped out of the Medicare program after the rate reductions imposed by the Balanced Budget Act of 1997. The Contractor's representative stated that, although some of the smaller providers expressed dissatisfaction over the reductions, none of the providers left the program. We believe that Wisconsin's Medicaid providers would continue to provide the oxygen related services at the reduced reimbursement levels, as did the Medicare providers. Therefore, we continue to believe that the State should revise its reimbursement limits for the oxygen related DME services.

* * * * *

Final determinations as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.) As such, within ten business days after the final report is issued, it will be posted on the World Wide Web at <http://www.hhs.gov/proorg/oig>.

To facilitate identification, please refer to Common Identification Number A-05-01-0003 1 in all correspondence relating to this report.



Paul Swanson
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official
Cheryl Harris, Associate Regional Administrator
CMS – Division of Medicaid and Children Health
233 North Michigan Avenue
Chicago, Illinois 60601

APPENDIX A

**Department of Health and Family Services
Wisconsin Medical Assistance Program
Summary of Potential Savings
October 1, 1997 through June 30, 2000
CIN A-05-01-00031**

Time Period	HCPCS	Description	Medicare Fee Schedule Amounts	Number of Medicaid Payments Exceeding Medicare Fee Amounts	Medicaid Payments in Excess of Medicare Fee Schedule Amount
10/01/1997 – 12/31/1997	0A4619	Face tent	\$ 1.74	1	\$ 17
01/01/1998 – 12/31/1998	0A4619	Face tent	1.32	2	1
01/01/1999 – 06/30/2000	0A4619	Face tent	1.21	7	133
10/01/1997 – 12/31/1997	0A4621	Tracheotomy mask or collar	1.98	176	2,687
01/01/1998 – 12/31/1998	0A4621	Tracheotomy mask or collar	1.48	744	13,754
01/01/1999 – 06/30/2000	0A4621	Tracheotomy mask or collar	1.39	1,165	22,407
10/01/1997 – 12/31/1997	0E0431	Portable gaseous O2	1.71	1,337	7,551
01/01/1998 – 12/31/1998	0E0431	Portable gaseous O2	1.28	4,900	80,228
01/01/1999 – 06/30/2000	0E0431	Portable gaseous O2	1.20	7,386	139,090
10/01/1997 – 12/31/1997	0E0434	Portable liquid O2	1.71	0	0
01/01/1998 – 12/31/1998	0E0434	Portable liquid O2	1.28	1,750	9,247
01/01/1999 – 06/30/2000	0E0434	Portable liquid O2	1.20	2,170	16,764
10/01/1997 – 12/31/1997	0E1400	Oxygen concentrator < 2 liter	9.72	0	0
01/01/1998 – 12/31/1998	0E1400	Oxygen concentrator < 2 liter	7.29	15,401	55,105
01/01/1999 – 06/30/2000	0E1400	Oxygen concentrator < 2 liter	6.80	19,695	287,061
10/01/1997 – 12/31/1997	0E1401	Oxygen concentrator 2–3 liter	9.72	0	0
01/01/1998 – 12/31/1998	0E1401	Oxygen concentrator 2–3 liter	7.29	970	3,369
01/01/1999 – 06/30/2000	0E1401	Oxygen concentrator 2–3 liter	6.80	1,374	21,543
10/01/1997 – 12/31/1997	0E1402	Oxygen concentrator 3–4 liter	9.72	0	0
01/01/1998 – 12/31/1998	0E1402	Oxygen concentrator 3–4 liter	7.29	362	1,252
01/01/1999 – 06/30/2000	0E1402	Oxygen concentrator 3–4 liter	6.80	441	6,600
10/01/1997 – 12/31/1997	0E1403	Oxygen concentrator 4–5 liter	9.72	0	0
01/01/1998 – 12/31/1998	0E1403	Oxygen concentrator 4–5 liter	7.29	594	1,666
01/01/1999 – 06/30/2000	0E1403	Oxygen concentrator 4–5 liter	6.80	1,036	14,356
10/01/1997 – 12/31/1997	0E1404	Oxygen concentrator > 5 liter	9.72	0	0
01/01/1998 – 12/31/1998	0E1404	Oxygen concentrator > 5 liter	7.29	80	265
01/01/1999 – 06/30/2000	0E1404	Oxygen concentrator > 5 liter	6.80	160	2,399
	Total:			59,751	\$ 685,495



State of Wisconsin
Department of Health and Family Services

ATTACHMENT

Scott McCallum, Governor
Phyllis J. Dubé, Secretary

August 13, 2001

Paul Swanson
Regional Inspector General for Audit Services
Office of Audit Services
Department of Health and Human Services
233 North Michigan Avenue
Chicago, IL 60601

Dear Mr. Swanson:

Thank you for providing the Wisconsin Department of Health and Family Services with the draft of the Office of the Inspector General Review of Medicaid Payment Amounts for Oxygen Related Durable Medical Equipment and Supplies.

We have had an opportunity to review the draft and would like to offer the following comments. First, your statement is accurate that in nine of the 15 payable oxygen services covered by Wisconsin Medicaid the reimbursement rates for those services are higher than the rates allowed under Medicare. The report correctly points out that states are not required to use Medicare pricing as the basis for Medicaid oxygen reimbursement levels. In addition, 42 CFR 447.204 requires states to set payment levels that are “sufficient to enlist enough providers so that services under the plan are available to recipients at least to the extent that those services are available to the general population.”

In the most commonly used oxygen procedure codes, Medicare pays \$6.80 per unit, while Wisconsin Medicaid pays \$7.56 per unit. This difference resulted from reductions in the Medicare reimbursement limit mandated by the Balanced Budget Act of 1997. At the time of that action, Wisconsin reviewed the Medicare payment limits and determined that the amounts were not adequate to maintain a sufficient number of providers who would be willing to continue to serve Medicaid recipients. Thus, the Department maintained the existing reimbursement levels to encourage providers to remain in the program and continue to provide this essential service to our recipients. Legislative action would be needed to reduce rates to the Medicare limits.

Again, while we agree with your conclusion that Wisconsin Medicaid pays more than the Medicare rate, we disagree with the recommendation that we reduce our payment level to match Medicare. It remains our belief that such a reduction would result in the refusal of providers to serve Medicaid clients. It should be noted that many of the fiscal disparities that resulted from the 1997 Balance Budget Act have been identified as causing a loss of providers, and that many of those limitations have since been rescinded. Therefore, we intend to maintain the level of reimbursement that we believe is appropriate for our state.

Wisconsin.gov

Paul Swanson
August 13, 2001
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Once again, we would like to thank you for sharing this draft with us.

Sincerely,

A handwritten signature in black ink that reads "Phyllis J. Dubé". The signature is written in a cursive style with a large, prominent initial "P".

Phyllis J. Dubé
Secretary