

**Memorandum**

Date **MAY 20 1996**

From June Gibbs Brown  
Inspector General *June Gibbs Brown*

Subject Office of Inspector General's Partnership Plan--Montana Legislative Auditor's Office  
Report on Medicaid Expenditures for Durable Medical Equipment (A-06-96-00042)

To Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

We are transmitting for your information and use, the attached final report on an audit of the Medicaid Expenditures for Durable Medical Equipment in Montana for the period from July 1, 1993 through June 30, 1995. This review was conducted by the Montana Legislative Auditor (MLA) as part of our partnership efforts with State Auditors to expand coverage of the Medicaid program. We provided the MLA with copies of the Office of Inspector General audit reports on this subject and technical assistance during the course of the audit. We also performed a desk review of the MLA's audit report to satisfy ourselves that the attached audit report can be relied upon and used by the Health Care Financing Administration (HCFA) in meeting its program oversight responsibilities.

The MLA performed a limited scope review of the Montana Medicaid expenditures for medical equipment and supplies. The Medicaid program is administered by the Department of Public Health and Human Services (Department). The objectives of the review were to (1) determine whether the Department pays more than necessary for medical equipment and supplies and (2) identify procedures to achieve cost savings for the Department in the acquisition of medical equipment and supplies.

The MLA's report on the purchasing and payment procedures discussed areas of potential cost savings and recommended that:

- o The Department evaluate competitive bidding for term contracts for oxygen concentrators to reduce costs. The MLA estimated if the Department purchased concentrators using the General Services Administration contract pricing and the Veterans Administration maintenance contract pricing, the annual cost savings could be between \$336,000 and \$504,000 annually.
- o The Department require a written description and/or prior authorization of all Medicaid items paid from invoices billed under miscellaneous equipment identification codes. The MLA identified \$134,091 in

questionable or unallowable Medicaid costs paid to providers who billed for equipment using a miscellaneous equipment identification code. The Department personnel are working to resolve and recover these payments.

- o The Department work with the Department of Administration to evaluate whether the current State term contract for diapers could be modified and/or expanded to achieve Medicaid cost savings. The MLA estimates potential annual savings of \$24,332 through the use of a term contract.
- o The Department define allowable incontinence supplies and document the medical necessity of these supplies including disposable wipes.

As we do with all audit reports developed by nonfederal auditors, we have provided as an attachment, a listing of the coded recommendations for your staff's use in working with the State to resolve findings and recommendations through our stewardship program. Attachment A provides a summary of the recommendations.

We plan to share this report with other States to encourage their participation in our partnership efforts. If you have any questions about this review, please let me know or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104.

Attachments

# Legislative Audit Division

State of Montana



Report to the Legislature

March 1996

## Limited Scope Review

Medicaid Partnership Plan

### Medicaid Expenditures for Durable Medical Equipment (DME)

Department of Public Health & Human Services

This report discusses opportunities for annual cost savings in the processing of DME claims and the acquisition of medical equipment and supplies. The potential savings could be significant.

- ▶ Potential Savings
  - Oxygen Concentrators between \$336,000 and \$504,000.
  - Miscellaneous ID Codes/questionable costs \$134,091.
  - Diapers \$24,332.

Direct comments/inquiries to:  
Legislative Audit Division  
Room 135, State Capitol  
PO Box 201705  
Helena MT 59620-1705

95-10A

## LIMITED SCOPE REVIEW

This limited scope review was a joint project performed by performance and financial-compliance audit staff to look for cost savings opportunities in the state's system for processing Medicaid durable medical equipment claims and acquisitions. This review also utilized technical support from federal audit personnel made available through the Medicaid Partnership Plan.

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### MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

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Members of the audit staff involved in this audit were Pam Boggs, Wayne D. Guazzo, Laurie Evans, and Jim Pellegrini.

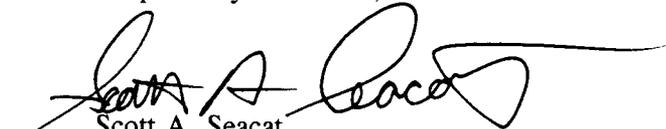
March 1996

The Legislative Audit Committee  
of the Montana State Legislature:

This is our limited scope review of the Department of Public Health and Human Services expenditures for Durable Medical Equipment. The report identifies three opportunities which could enhance department efforts to reduce Medicaid costs. The department's written response is included beginning on page 13.

I thank the department director and his staff for their assistance and cooperation during our review.

Respectfully submitted,

  
Scott A. Seacat  
Legislative Auditor

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### Appointed and Administrative Officials

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**Department of Public  
Health & Human  
Services**

Peter Blouke, Director

Nancy Ellery, Administrator, Medicaid Services Division

Mary Dalton, Chief, Primary Care Bureau

# Medicaid Expenditures for Durable Medical Equipment

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## Introduction

We performed a limited scope review of Montana Medicaid expenditures for medical equipment and supplies. The Medicaid program is administered by the Department of Public Health and Human Services (department).

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## Objectives

Our primary objectives were to:

1. Determine whether the department pays more than necessary for medical equipment and supplies.
2. Identify procedures to achieve cost savings for the department in the acquisition of medical equipment and supplies.

We conducted this review in cooperation with federal auditors who provided technical support to us under the Medicaid Partnership Plan. The Partnership Plan outlines suggested federal and state joint audits of the Medicaid program which have saved money in other states.

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## Scope

The scope of this review was limited to reviewing the department's Medicaid durable medical equipment expenditures and acquisition procedures necessary to meet our objectives. We did not review all expenditures for durable medical equipment, nor did we review transactions to the extent necessary to identify all unnecessary costs or all less than optimum equipment acquisition methods used by the department. Our review was conducted in accordance with applicable Government Audit Standards.

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## Background

The Medicaid program pays for medically necessary equipment and supplies for qualified low income people. In fiscal year 1993-94, over 8,200 Montana Medicaid recipients received medical equipment and supplies at a cost more than \$7.1 million. In fiscal year 1994-95, 8,600 Montana Medicaid recipients received medical equipment and supplies at a cost of almost \$7.7 million. The average cost of durable medical equipment per recipient increased from \$853 in fiscal year 1993-94, to \$895 in fiscal year 1994-95. The federal government funds approximately 70 percent of the

## **Medicaid Expenditures for Durable Medical Equipment**

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Montana Medicaid expenditures with the state's General Fund paying the remaining 30 percent.

Our review of the purchasing and payment procedures disclosed several areas of potential cost savings in the acquisition of medical equipment and supplies. The following recommendations discuss cost saving opportunities we identified.

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### **Oxygen Concentrators**

#### **Review Recommendation #1**

*We recommend the department evaluate competitively bidding term contracts for oxygen concentrators to reduce costs.*

Montana Medicaid has the potential for cost savings by utilizing competitively bid term contracts for oxygen concentrators and related services. Currently, a recipient may rent an oxygen concentrator from any vendor and the vendor bills the Medicaid program for the services. We discussed the potential use of oxygen concentrator term contracts with Montana Medicaid staff. They indicated that in 1993 the maximum monthly oxygen concentrator fee was reduced by 15 percent to \$261.35, because of the estimated savings of volume purchasing. Medicaid staff indicated the oxygen providers agreed to a reduced rate so all vendors could continue to provide the services. Most vendors currently are paid the maximum amount.

There are approximately 1,000 oxygen concentrators billed each month to Montana Medicaid at a cost of approximately \$1.8 million in fiscal year 1994-95. Approximately 700 of these concentrators are used by Medicaid recipients. Recipients covered jointly by Medicare and Medicaid use the additional 300 oxygen concentrators.

In other states we contacted, Medicaid term contracts for oxygen concentrator rentals have costs ranging from \$53 up to \$114 per month for equipment and services comparable to those Montana Medicaid provides. The monthly rental amount for oxygen concentrators includes periodic maintenance and support services for the equipment and patient. Such services include equipment

## **Medicaid Expenditures for Durable Medical Equipment**

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monitoring and maintenance, emergency service, and patient instruction and assessment.

The Veteran's Administration (VA) hospital at Fort Harrison in Helena purchases oxygen concentrators and has a term contract for monthly maintenance. The VA purchases new concentrators for \$1,100 and rebuilt concentrators for \$450. The current VA maintenance contract is \$125 per month for each concentrator. VA staff indicated the Federal General Services Administration's (GSA) purchase contracts have oxygen concentrators available for \$875 when four or more are purchased. The VA staff indicated they intended to use the GSA contract for future purchases. The GSA contract is available to all federal, state, and local governments. We also inquired as to the life expectancy of an oxygen concentrator. The VA staff indicated they get about three years use from a concentrator before needing to have it rebuilt.

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### **Potential Cost Savings**

Use of a term contract for oxygen concentrators in Montana may not achieve the same cost savings per month as it does in other states, but we believe there would be significant savings. Because of the rural population in Montana, a regional term contract may be more appropriate to achieve greater cost savings in the more populous areas and still provide good service in rural areas. With a regional term contract the price could vary by region. We estimated the following range of savings for Montana Medicaid oxygen concentrators.

- ▶ If the maximum price is reduced to \$200 per month per oxygen concentrator, the potential cost savings would be over \$500,000 per year.
- ▶ If the price is reduced by \$100 per month, to \$161 per concentrator, the potential cost savings would be about \$840,000 per year.
- ▶ If one third of the concentrators were reduced to \$161, one third reduced to \$200, and the remaining one third did not have a price change, the potential cost savings would be about \$453,000 annually.

## Medicaid Expenditures for Durable Medical Equipment

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- ▶ We initially estimated if the department purchased concentrators using the GSA contract pricing and VA maintenance contract pricing, the potential cost savings would be approximately \$910,000 annually. Upon clarification with department staff, VA staff, and the VA term contractor, we recalculated potential cost savings between \$336,000 up to \$504,000 annually.

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### Equipment Identification Codes

#### Review Recommendation #2

*We recommend the department require a written description and/or prior authorization of all Medicaid items paid from invoices billed under miscellaneous equipment identification codes.*

Our testing identified the following questionable or unallowable Medicaid costs paid to providers who billed for equipment using a miscellaneous equipment identification (ID) code.

| <u>Schedule of Questionable Costs</u>   |                           |
|---|---------------------------|
|   | <u>Questionable Costs</u> |
| Results of a 20 recipient sample test   | \$ 5,100                  |
| Results from expanded tests of the sample noted above.  | 13,300                    |
| Other items identified by Medicaid personnel  |                           |
| 2 oximeters   | 30,000                    |
| 1 ventilator  | 76,500                    |
| 1 infusion pump   | <u>9,191</u>              |
| Total   | <u>\$134,091</u>          |
| <p>Source: Compiled by the Legislative Audit Division based on our review of files at a medical equipment provider.</p> |                           |

The following paragraphs discuss concerns noted during our review of durable medical equipment claims paid by the department under one miscellaneous ID code.

## **Medicaid Expenditures for Durable Medical Equipment**

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The department accounts for various types of durable medical equipment purchased through the use of equipment identification (ID) codes. Due to the limited number of codes available to identify medical equipment and supplies, there are 19 "miscellaneous" ID codes medical equipment providers use. In fiscal years 1993-94 and 1994-95, the department paid \$777,785 and \$860,283 respectively, for durable medical equipment classified under miscellaneous ID codes. Purchases using miscellaneous ID codes require prior approval from Medicaid for items over \$1,000.

Medicaid has a description for these items, but has no description for miscellaneous coded items costing less than \$1,000. Therefore, for miscellaneous items costing less than \$1,000 Medicaid personnel cannot determine whether the payments to providers are allowable.

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### **Questionable or Unallowable Payments**

For a sample of 20 Medicaid recipients, we tested all claims submitted between July 1, 1994, and December 31, 1994 by one medical equipment provider. We found \$5,100 of the \$9,570 in miscellaneous ID code claims tested (53 percent) were questionable. The overpayments ranged from \$10.85 to \$1,350. We noted claim errors for 17 of 25 recipients tested; claims for 13 of 20 recipients tested contained errors which resulted in overpayment to the equipment provider. The following chart displays the results of our sample:

## Medicaid Expenditures for Durable Medical Equipment

| Number of<br>Recipients Tested | Finding   | Percent<br>of Total |
|--------------------------------|---|---------------------|
| 4                              | Wrong code - no monetary effect                     | 20                  |
| 3                              | Wrong code - overpaid                               | 15                  |
| 3                              | Rental exceeded purchase price - overpaid           | 15                  |
| 2                              | No prescription - overpaid                          | 10                  |
| 1                              | No certificate of medical necessity - overpaid      | 5                   |
| 1                              | Rental longer than prescribed - overpaid            | 5                   |
| 1                              | Rental longer than reasonable for repair - overpaid | 5                   |
| 1                              | Item not covered by Medicaid - overpaid             | 5                   |
| 1                              | Other incorrect coding - overpaid                   | 5                   |
| 1                              | Unable to conclude without other insurance info.    | 5                   |
| <u>2</u>                       | Ok - no problems identified                         | <u>10</u>           |
| <u>20</u>                      |   | <u>100</u>          |

Source: Compiled by the Legislative Audit Division based on our review of files at a medical equipment provider.

Due to the high number of errors found in our sample we decided to expand our testing of claim records for the 20 recipients. We examined, with Medicaid staff, claims submitted for these recipients both before and after the six month period tested in our sample and identified \$13,300 more in questionable payments. These include \$10,100 in payments claimed under a miscellaneous ID code and \$3,200 claimed under other ID codes.

### Examples of Overpayments Identified Through Our Testing

The following are examples of Medicaid overpayment for miscellaneous equipment which we noted as a result of our testing. The department paid \$10,800 in rent for an oximeter billed as miscellaneous equipment even though Medicaid regulations limit department payments to a maximum of the \$3,332 purchase price of the equipment. We also noted a \$495 claim for an adult stroller which, if it had contained a description of the item, the department would have disallowed it because there was no Certificate of Medical Necessity as required by Medicaid regulations.

## **Medicaid Expenditures for Durable Medical Equipment**

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### **Other Examples of Overpayments**

When we asked Medicaid personnel whether they had concerns regarding payments made to other providers under miscellaneous equipment ID codes, they identified two oximeter rentals and one ventilator rental where the department paid \$106,500 above the \$6,500 cost of purchasing the items. In addition, Medicaid staff identified a portable infusion pump which, if it had been billed with a specific description of the pump, the maximum allowable payment would have been \$4,736 rather than \$13,927, the total of all monthly rental payments made under the miscellaneous ID code.

Montana Medicaid staff also identified items billed under miscellaneous ID codes for items not allowed because they were not medically necessary. For example, staff identified a wheel chair ramp, peri-wash (a liquid anti-bacterial soap), lotion, powder, and ointment all billed and paid under miscellaneous ID codes.

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### **Require Written Description or Prior Authorization**

During our evaluation of the miscellaneous ID codes we contacted Medicare, Blue Cross/Blue Shield Insurance, and other states' Medicaid agencies. We found Medicare requires written description for purchases using miscellaneous type codes. Blue Cross/Blue Shield Insurance and other states' Medicaid agencies we contacted also require either prior authorization or a written description of items billed under miscellaneous ID codes. Montana Medicaid should require a written description and/or prior authorization of all items billed under miscellaneous ID codes to ensure proper use of miscellaneous ID codes and appropriate payment of miscellaneous coded items.

As a result of our review of expenditures charged to miscellaneous ID codes department personnel began working to resolve and recover the \$18,400 we identified in questionable payments. The department is continuing their efforts to collect on the questionable payments identified by their own staff. The department is also in the process of revising its policies regarding payments made for equipment coded with the miscellaneous ID codes to require a written description of each item.

## Medicaid Expenditures for Durable Medical Equipment

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### Incontinence Supplies

#### Review Recommendation #3

*We recommend the department:*

- A. *Work with the Department of Administration to evaluate whether the current state term contract for diapers could be modified and/or expanded to achieve Medicaid cost savings.*
- B. *Define allowable incontinence supplies and document the medical necessity of these supplies including disposable wipes.*

Medicaid personnel indicated incontinence supplies include medically necessary supplies such as cloth and disposable adult and children diapers, shields, liners, pads and disposable wipes. There is no written formal definition for allowable incontinence supplies in Medicaid regulations or policy. According to current department rules, if a recipient obtains a doctors prescription to purchase incontinence supplies, the supplies would be covered by Medicaid in the absence of more specific rules. In fiscal year 1993-94, Medicaid paid \$732,317 for incontinence supplies. In fiscal year 1994-95, Medicaid spent \$792,410 to date for incontinence supplies. During the course of our review we noted the following issues relating to these supplies.

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### Diaper Costs

When we began our review, Montana Medicaid paid 90 percent of submitted charges for disposable diapers. We identified adult disposable diaper charges as high as \$2.74 per diaper and children's disposable diaper charges as high as \$1.86 per diaper. We found adult disposable diaper prices at a discount store in Helena were \$.83 per diaper for brand name diapers and \$.55 per diaper for generic diapers. For children's disposable diapers, we noted the local discount store price was \$.38 for brand name diapers and \$.28 for generic diapers. We also gathered disposable diaper prices in several small towns in Montana. We found children's diapers as high as \$.47 each for brand name diapers and \$.35 each for generic diapers. Effective October 1, 1995, due to concerns regarding the amount paid for disposable diapers, the department set a fee limit of \$.70 per diaper and a quantity limit of

## **Medicaid Expenditures for Durable Medical Equipment**

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180 diapers per month. These steps will help reduce disposable diaper costs.

The state currently has a term contract for adult disposable diapers for institutionalized individuals. There may be savings if the contract were modified or expanded to include Medicaid recipients. We met with the term contractor, as well as Montana Medicaid staff and a Department of Administration purchasing agent, to discuss the use of the contract by Medicaid. Based on the discussion the Department of Administration may need to expand, modify, or rebid the term contract to accommodate the Medicaid program needs. We estimate potential annual savings of \$24,332 through use of a term contract.

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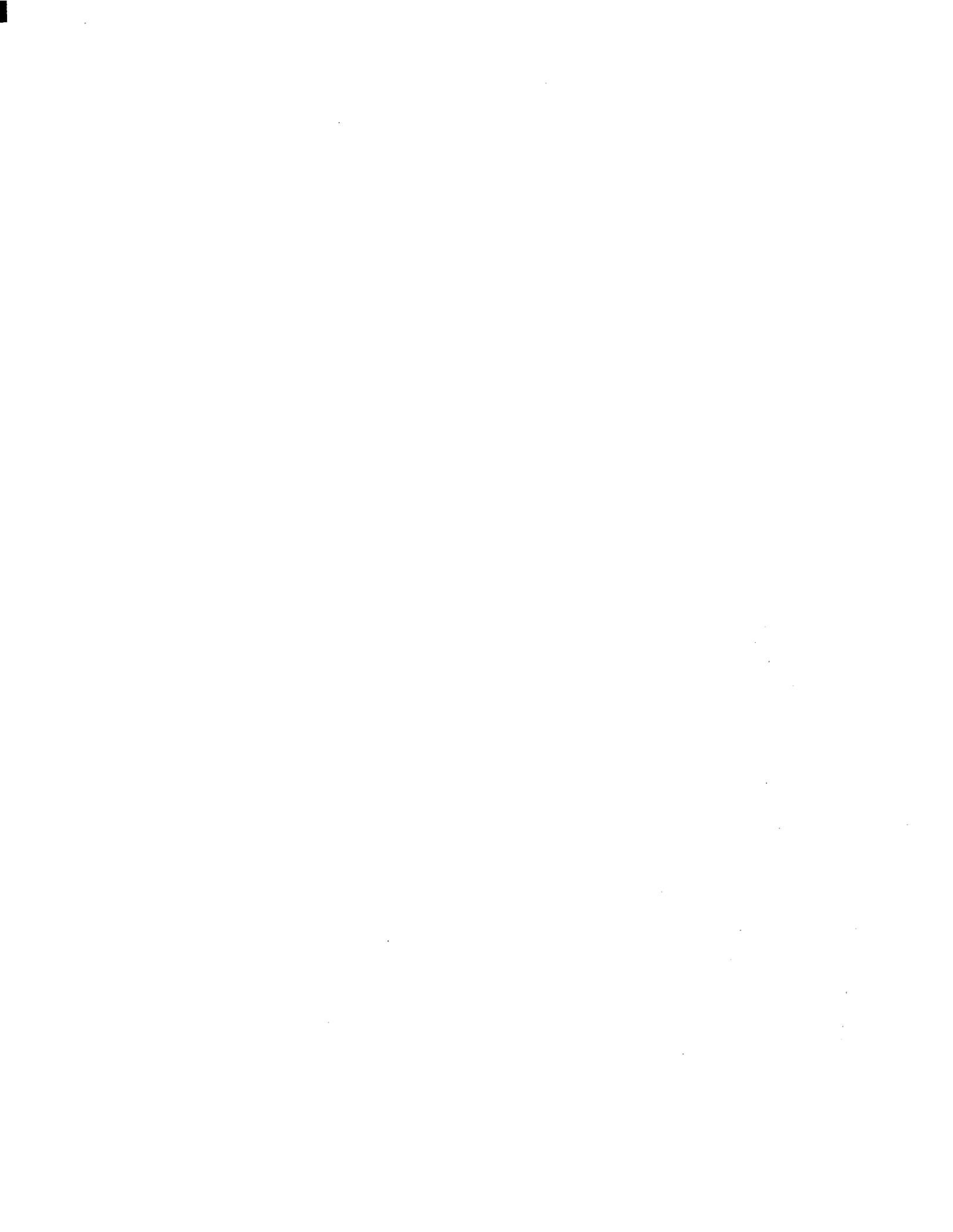
### **Disposable Wipes**

We asked Medicaid officials why disposable wipes are considered a medical necessity and purchased with Medicaid funds. In response to our request, the Montana Medicaid consultant retained by the department to determine the medical necessity of Medicaid services, reviewed the payment for disposable wipes and concluded they are personal hygiene and convenience items. In addition, we contacted other states' Medicaid agencies and found disposable wipes are not considered medically necessary and are not allowable purchases. The department should define allowable incontinence supplies and consider whether it should pay for disposable wipes.

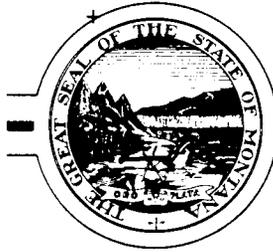


# **Agency Response**

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DEPARTMENT OF  
SOCIAL AND REHABILITATION SERVICES



MARC RACICOT  
GOVERNOR

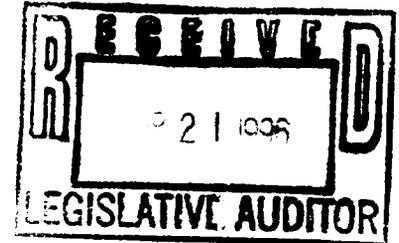
PETER S. BLOUKE, PhD  
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STATE OF MONTANA

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March 21, 1996

Scott A. Seacat  
Legislative Auditor  
State Capitol  
Helena MT 59620



Dear Mr. Seacat:

Enclosed is the Department of Public Health and Human Services written reply to the Medicaid Expenditures for Durable Medical Equipment (DME) audit report. A computer disk with the responses is also included along with two copies of the draft report.

If you have any questions concerning the responses please contact Bill Wells or Eric Merdinger of my staff.

Sincerely,

A handwritten signature in cursive script that reads "Mike Billings".

Mike Billings, Administrator

File: A:\DMERECOM

## Review Recommendation #1

We recommend the department:

- A. Evaluate competitively bidding term contracts for oxygen concentrators to reduce costs.

## Response

Montana Medicaid agrees that evaluation of competitive bidding for oxygen services may be appropriate if there are reasonable indications that costs can be significantly reduced while maintaining quality services. In 1993 Montana Medicaid did an extensive evaluation of competitive bidding for oxygen services and concluded that competitive bidding would not be the most effective way of providing oxygen concentrator therapy. Savings for volume purchasing were estimated at this time and rate reductions that generated similar savings were negotiated with providers. This decision not to go out on competitive bid was reinforced by problems that the Department was experiencing with a state wide volume purchase contract for wheelchairs. Under the wheelchair contract, we were experiencing difficulty with access, service and repair in areas outside of the provider's normal service area. (These concerns were serious enough that the Department did not renew the wheelchair contract. We negotiated rate reductions and have reverted to open competition amongst providers.) Consumer advocates, providers, and the Department were concerned that similar problems would arise if oxygen was reimbursed through a volume purchasing arrangement.

In 1993 Montana Medicaid reduced all oxygen reimbursement by 15% and reimbursement has remained at this level. This action reduced the cost of this therapy to Montana Medicaid while maintaining access to quality services on a state wide basis. Montana Medicaid reimburses \$261.35 per month for the use of a concentrator and bundles related services in this fee. These related services include items that may be reimbursed separately by other payors. These differences may result in inappropriate comparisons unless other factors are considered. As an example, the audit report uses the Veteran's Administration (V.A.) term contract as a basis for the cost savings that could be obtained by Medicaid, but do not include the added costs for the oxygen therapy that is billed separately by the contractor. Some of these charges are as follows:

- Unlimited respiratory therapy visits (\$60 per hour)
- Oximetry reading done by a Respiratory Therapist (\$60 a visit)
- Setup charges allowed under the contract (average \$125 per year )
- Repair, cleaning and maintenance of a reissued concentrator

- The contractor bills the V.A. an average of \$400 per year per concentrator to rebuild each concentrator annually
- Unlimited portable tanks fills every month (\$13 per tank)

All of the above costs are **included** under the monthly concentrator rental fee of \$261.35 for Montana Medicaid. Discussions between the Department and the current contractor for the V.A indicate that the V.A is reimbursing their contractor an average of \$342 per month for a package of services similar to coverage under Montana Medicaid. This is approximately 31% more than the current Medicaid reimbursement and does not include certain services that are currently provided to Montana Medicaid (i.e. drafting care plans). It should also be noted that Medicaid has a much higher percentage of recipients in the nursing home than the V.A., and that this population uses refillable portable systems at a much higher rate than the average oxygen population.

Medicare has a bundle of services similar to Montana Medicaid in this area and the current Montana Medicaid reimbursement amount is 18% **under** the Medicare allowable fee. Preliminary findings from Department review indicate that Medicaid has one of the lowest reimbursement rates in the state for this package of services. The Department has not reviewed any information that indicates that a competitive bid process will result in significant savings without reducing the scope of the services provided or jeopardizing the quality of and access to necessary services. Unlike other services, problems with the delivery of this service can be life-threatening.

The report states that many other states are paying less for concentrators. Again, before comparison can be made, the scope of services included in the reimbursement must be comparable. Some states are reimbursing in the same manner as the V.A., some are paying for the oxygen and related therapy services under the nursing home per diem, and others are paying for oxygen as part of a rate under a managed care program.

One of the major disadvantages of competitive bid contracts is the loss of the competitive incentive to provide quality service. Our experience in the past has indicated that sole source contracts work well when the service is low maintenance and primarily product oriented. For items that contain a significant service component, a competitive market works to insure quality delivery of the service.

## Review Recommendation #2

We recommend the department:

- A. Require a written description and/or prior authorization of all Medicaid items paid from invoices billed under miscellaneous equipment identification codes.

## Response

The Department agrees with the recommendation to implement a written description of Miscellaneous Durable Medical Equipment Procedure codes. As a result of the items identified by the Surveillance \ Utilization Review Unit of the Medicaid Division, work began to develop methodology to implement this change in the Fall of 1995. A request was submitted to the claims processing agent in December of 1995 to implement this change. We are awaiting a cost estimate from them before we proceed. Implementation of this change will result in readily available information for retrospective review. It should be noted that some of the questionable costs identified are not related specifically to Miscellaneous code use and may not be prevented with descriptions alone. In addition to written descriptions, the Medicaid Division has identified other internal controls listed below to prevent possible inappropriate payments in purchase or rental of Durable Medical Equipment.

In 1994, Medicaid implemented prior authorization on all items where the charges exceed \$1000. This control allows the Department to examine and approve expensive items, including those billed under miscellaneous codes, prior to payment for the service. In October 1995, the Department developed changes to policy and regulation to strengthen the process of capping rental of certain items to a percentage of the purchase price. The Department is also developing methods to systemically prevent inappropriate payments from occurring. Capping rental payments to the purchase price, while appropriate for some low maintenance items, is not appropriate for high maintenance, life support type of equipment such as ventilators. The Department has developed a specific list of items that are subject to purchase price limits. The Department has reviewed the ventilator rental listed in Table 1 and has determined that this is not an overpayment. The Department continues to work on the oximeter and infusion pumps to determine if an overpayment exists. These claims span services over a period of several years. If the Department determines an overpayment exists, collection will be pursued.

Other items that were identified in Table 2 include the lack of required documentation (Prescriptions and Certificates of Medical Necessity) and incorrect coding. To strengthen controls, the department will perform further review in this area to insure that program requirements are being followed.

The Department will schedule further review at the earliest available opportunity. The review also identified a wheelchair ramp that was not allowed as it was not medically necessary. The Department has researched this item and found it was approved for a home and community based waiver client but was inappropriately billed using a miscellaneous code.

Miscellaneous codes have a role in any coding system and appropriate use of these codes is a necessary component to a properly operating system. In order to insure that these codes are used appropriately, however, the department will develop or activate additional codes as appropriate to insure proper classification and payment of Durable Medical equipment.

### Review Recommendation #3

We recommend the department:

- A. Work with the Department of Administration to evaluate whether the current state term contract for diapers could be modified and/or expand to achieve Medicaid cost savings.
- B. Define allowable incontinence supplies and document the medical necessity of these supplies including disposable wipes.

### Response

The Department agrees to work with the Department of Administration to evaluate whether the current state term contract or other alternatives could achieve cost savings or provide an avenue to control future costs of diapers while maintaining access to quality services for Medicaid recipients. It should be noted that the current state contract obtains discounts through sole source volume purchasing and delivery of several specific products. Elements that need to be considered before developing this type of system for Medicaid include but are not limited to:

1. Meeting a broad range of client needs and conditions;
2. Providing access on a state wide basis; and
3. Relating the costs back to individual clients to obtain Federal funding.

Volume purchasing appears to be most appropriate for individuals residing in facilities (i.e. Group homes). The Department will examine if volume purchasing is an efficient delivery method for these clients as well as clients residing at home.

The Department in October 1995 reduced the fee paid for diapers to \$.70 and the number of diapers allowed per month to 180. We feel that significant savings will be generated by

the steps which have already been taken to establish fee and quantity limits. The department does not feel that prices of cash and carry purchase at discount stores are comparable to the cost of diapers requiring billing to the Medicaid Program. Many stores carry these items as "loss leaders" to attract other business to the store. In order to receive federal matching funds, Medicaid requires that providers maintain detailed individual records and bill each client separately on a medical claim form. These differences make this comparison inappropriate. The potential for cost reductions will be evaluated and prioritized with other Medicaid cost control initiatives before pursuing this alternative.

B. The Department will develop policy regarding the coverage of incontinence products. Currently the department's policy is to cover these products. The Department considers them to be a cost-effective preventive measure that results in better patient care and reduces the risk of infection and other costly interventions. Considering that Medicaid recipients have very limited disposable income, elimination of payment for incontinence items may result in more costly care in the future.