

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE RHODE ISLAND MEDICAID
PROGRAM COULD LOWER PAYMENTS
FOR SELECTED DURABLE MEDICAL
EQUIPMENT AND SUPPLIES**

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Regional Inspector General
for Audit Services

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Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

Rhode Island Medicaid could have saved approximately \$1 million on selected durable medical equipment incontinence items by limiting reimbursement to the most frequently reimbursed usual and customary charge amounts from July 2010 through June 2011.

WHY WE DID THIS REVIEW

The Rhode Island Executive Office of Health and Human Services, Office of Medicaid (State agency) reimbursed 234 durable medical equipment (DME) providers \$7,725,191 for 660 DME items provided from July 2010 through June 2011. Of this amount, the State agency reimbursed 115 providers \$3,257,455 (42 percent) for 16 selected DME incontinence items, such as protective underwear, diapers, and liners.

The State agency has recently undertaken steps to control costs for DME items. In 2009, the State agency implemented a 5 percent reduction to the fee schedule for DME items. However, State agency officials stated that further measures to control costs are necessary. Accordingly, the State agency requested our assistance to identify further options to control costs for these 16 DME items.

In addition, previous Office of Inspector General reviews in other States found that State Medicaid agencies achieved considerable savings by implementing measures aimed at controlling costs for DME items.

The objective of this review was to determine whether the State agency could have realized cost savings for the 16 selected DME items.

BACKGROUND

The State agency administers the Rhode Island Medicaid program. The State agency established a payment fee structure designed to enlist a sufficient number of providers in the Medicaid program. From July 2010 through June 2011, 234 providers chose to enlist and receive Medicaid reimbursements for DME items in Rhode Island. The State agency reimbursed DME providers the lesser of the Medicaid fee schedule payment amount or providers' usual and customary charge.

WHAT WE FOUND

The State agency could have realized cost savings for 16 selected DME items. The State agency correctly reimbursed all 115 DME providers for the 16 selected DME items. It reimbursed 97 of those DME providers their usual and customary charges, which were less than the fee schedule payment amounts. The State agency reimbursed the remaining 18 DME providers the fee schedule payment amounts because these providers' usual and customary charges were equal to or greater than the fee schedule payment amounts. However, we calculated that the State agency could have saved \$1,014,990 (\$608,258 Federal share) for the 16 DME items if it had reduced the

fee schedule payment amounts to the amounts based on the most frequently reimbursed DME providers' usual and customary charges for these 16 DME items.

The State agency does not have a process for (1) identifying whether significant differences existed between the fee schedule payment amounts and the majority of DME providers' usual and customary charges for the 16 DME items and (2) adjusting the fee schedule payment amounts if such significant differences existed.

WHAT WE RECOMMEND

We recommend that the State agency:

- develop a process to determine whether significant differences existed between the fee schedule payment amounts and the majority of providers' usual and customary charges for the 16 DME items and
- adjust the fee schedule payment amounts if such significant differences existed. These adjustments would have resulted in total cost savings of \$1,014,990 (\$608,258 Federal share) from July 2010 through June 2011 for these 16 DME items.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our conclusions.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Rhode Island Executive Office of Health and Human Services, Office of Medicaid (State agency) reimbursed 234 durable medical equipment (DME) providers \$7,725,191 for 660 DME items from July 2010 through June 2011. Of this amount, the State agency reimbursed 115 providers \$3,257,455 (42 percent) for 16 DME incontinence items, such as protective underwear, diapers, and liners.

The State agency has recently taken steps to control costs for DME items. In 2009, the State agency implemented a 5 percent reduction to the fee schedule for DME items and supplies. However, State agency officials informed us that further measures to control costs are necessary. Office of Inspector General reviews in other States have found that State Medicaid agencies achieved considerable savings by implementing measures aimed at controlling costs for DME items.¹ The State agency requested our assistance to identify further options to control costs for DME incontinence items.

OBJECTIVE

Our objective was to determine whether the State agency could have realized cost savings for the 16 selected DME items.

BACKGROUND

The Medicaid Program: How Payment Rates Are Determined for Rhode Island's Durable Medical Equipment Items

The State agency administers the Rhode Island Medicaid program. Federal requirements allow States to establish their own Medicaid provider payment rates. One methodology States, including Rhode Island, use to establish Medicaid provider payment rates is a fee-for-service arrangement, in which States pay providers directly for services. The fee-for-service payment rates may be based on the costs of providing the services, a review of what commercial payers pay in the private market, or a percentage of what Medicare pays for equivalent services.

In Rhode Island, the State agency established a payment fee structure designed to enlist a sufficient number of providers in the Medicaid program so that eligible persons could receive medical care and services to the extent available to the general population.² From July 2010 through June 2011, 234 providers chose to enlist in the program and receive Medicaid reimbursements for DME items.

¹ Appendix A displays a list list of prior OIG reviews.

² Rhode Island State Plan, attachment 4.19B.

HOW WE CONDUCTED THIS REVIEW

The State agency made DME payments totaling \$7,725,191 for 660 DME items and supplies provided from July 2010 through June 2011. We limited our review to 16 DME items totaling \$3,257,455, or 42 percent of all DME payments for the audit period.³

We analyzed State agency payments to providers to identify the most frequently reimbursed amounts for the 16 DME incontinence items. Of the \$3,257,455, the State agency reimbursed 18 providers \$2,528,763 at the fee schedule amount and 97 providers \$728,692 at their usual and customary charges. To identify potential cost savings for these 16 DME items, we recalculated the amounts that the State agency would have paid if all payments were based on the most frequently reimbursed usual and customary charge and compared our results to the actual State agency reimbursed amounts.

We conducted this performance audit 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.

Appendix C contains the details of our scope and methodology.

FINDING

The State agency could have realized cost savings for 16 selected DME items. The State agency correctly reimbursed all 115 DME providers for the 16 selected DME items. It reimbursed 97 of those DME providers their usual and customary charges, which were less than the fee schedule payment amounts. The State agency reimbursed the remaining 18 DME providers the fee schedule payment amounts because these providers' usual and customary charges were equal to or greater than the fee schedule payment amounts. However, we calculated that the State agency could have saved \$1,014,990 (\$608,258 Federal share) for the 16 DME items if it had reduced the fee schedule payment amounts to the amounts based on the most frequently reimbursed DME providers' usual and customary charges for these 16 DME items.

The State agency does not have a process for (1) identifying whether significant differences existed between the fee schedule payment amounts and the majority of DME providers' usual and customary charges for the 16 DME items and (2) adjusting the fee schedule payment amounts if such significant differences existed.

FEDERAL AND STATE REQUIREMENTS

The State agency established a payment fee structure designed to enlist a sufficient number of providers in the program so that eligible persons can receive medical care and services included in the plan at least to the extent these are available to the general population (The Rhode Island

³ See Appendix B for a detailed list of DME items that we reviewed for cost savings.

State Plan, attachment 4.19B).

No medical assistance provider may bill or charge the State agency more than the providers' usual and customary charges (Rhode Island General Law, title 40, chapter 40-8, § 40-8-4.1(a) and (b)). The term "usual and customary" means the lowest charge, fee, or rate charged by a provider for any product or service at the time such product or service was provided.

The State agency reimburses DME providers the lesser of the current Medicaid fee schedule payment amount or the providers' usual and customary charge (*Rhode Island Durable Medical Equipment Manual*). This policy is predicated on the prudent buyer concept (i.e., not paying more for an item when it generally can be obtained at a lesser cost).

OPPORTUNITIES FOR COST SAVINGS EXIST

The State agency properly reimbursed 97 DME providers their usual and customary charges, which were less than the fee schedule payment amounts. The State agency also reimbursed 18 DME providers the fee schedule payment amounts because their usual and customary charges were equal to or greater than the fee schedule payment amounts. However, the difference between the number of providers reimbursed usual and customary charges (97 or 84 percent) and those reimbursed fee schedule amounts (18 or 16 percent) indicates that the State agency's DME fee schedule payment amounts are higher than necessary.

Accordingly, there are a variety of approaches that the State agency could have used to reduce its cost for the 16 selected DME items without restricting the number of DME providers participating in Medicaid. These approaches include confirming and utilizing other State agencies' fee schedule payment amounts, using the State agency's lowest or average provider claim amounts for a specific DME item, or limiting reimbursement to more frequently reimbursed usual and customary charges.

We elected to base our analysis on limiting reimbursement to the more frequently reimbursed usual and customary charges in order to estimate potential cost savings. Specifically, we compared the total the State agency reimbursed for the 16 DME items and the amount that the State agency would have reimbursed if the fee schedule payment amount were reduced to the most frequently occurring usual and customary charge amounts.

For example, the State agency reimbursed DME providers \$377,463 for medium adult sized disposable diapers (T4522). However, the State agency would have only reimbursed the DME providers \$133,831 for this item if it had adjusted its fee schedule from 95 cents to 33 cents (the providers' most frequently occurring usual and customary charge amounts). Therefore, the State agency's cost for this DME item would have been reduced by \$243,632 (\$377,463 less \$133,831).

The following table illustrates two additional examples of potential cost savings that the State agency could have achieved by reducing the fee schedule payment amounts to the providers' most frequently occurring usual and customary charge amounts.

Table: Examples of Potential Cost Savings Using the Most Frequently Occurring Unit Charge Amounts

Product Description (HCPCS)	Rhode Island Fee Schedule Amount	Most Frequently Occurring Charge Amount	Actual Units Reimbursed	Potential Cost Savings
Small adult sized disposable brief/diaper (T4525)	\$.95	\$.50	212,468	\$95,288
Large adult sized disposable protective underwear/pull-on (T4523)	\$.95	\$.56	497,718	\$188,053

We further calculated an additional savings of \$488,017 for the remaining 13 DME items for a total potential savings of \$1,014,990 (Appendix B).

CAUSES OF HIGHER-THAN-NECESSARY FEE SCHEDULE AMOUNTS

The State agency does not have a process for (1) identifying whether significant differences existed between the fee schedule payment amounts and the majority of DME providers' usual and customary charges for the 16 DME items and (2) adjusting the fee schedule payment amounts if such significant differences existed.

RECOMMENDATIONS

We recommend that the State agency:

- develop a process to determine whether significant differences existed between the fee schedule payment amounts and the majority of providers' usual and customary charges for the 16 DME items and
- adjust the fee schedule payment amounts if such significant differences existed. These adjustments would have resulted in total cost savings of \$1,014,990 (\$608,258 Federal share) from July 2010 through June 2011 for these 16 DME items.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our conclusions. The State agency's comments are included in their entirety as Appendix D.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Ohio Medicaid Costs for Home Blood-Glucose Test Strips Could Be Reduced By Approximately 50 Percent</i>	A-05-11-00098	03/13/12
<i>Indiana Reduced Medicaid Costs for Home Blood-Glucose Test Strips by Approximately 50 Percent Using Manufacturer Rebates</i>	A-05-12-00011	06/21/12
<i>The Ohio Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies</i>	A-05-12-00038	04/30/13
<i>Illinois Significantly Reduced Medicaid Costs for Home Blood-Glucose Test Strips But Could Achieve Additional Reductions</i>	A-05-12-00009	05/06/13
<i>The New York State Manufacturer Rebate Program Significantly Reduced Medicaid Costs for Home Blood-Glucose Test Strips But Could Achieve Additional Reductions</i>	A-02-11-01042	07/02/13

APPENDIX B: POTENTIAL COST SAVINGS FOR SELECTED DURABLE MEDICAL EQUIPMENT ITEMS

HCPCS	Product Description	RI Medicaid Costs	Most Frequently Occurring Charge Amount	Potential Cost Savings	Savings %
T4521	Adult sized disposable incontinence product, brief/diaper, small, each	\$77,996	\$55,307	\$22,689	29%
T4522	Adult sized disposable incontinence product, brief/diaper, medium, each	377,463	133,831	243,632	65%
T4523	Adult sized disposable incontinence product, brief/diaper, large, each	466,780	278,727	188,053	40%
T4524	Adult sized disposable incontinence product, brief/diaper, extra large, each	142,022	94,043	47,978	34%
T4525	Adult sized disposable incontinence product, protective underwear/pull-on, small, each	201,522	106,234	95,288	47%
T4526	Adult sized disposable incontinence product, protective underwear/pull-on, medium, each	242,483	194,880	47,603	20%
T4527	Adult sized disposable incontinence product, protective underwear/pull-on, large, each	377,842	304,083	73,760	20%
T4528	Adult sized disposable incontinence product, protective underwear/pull-on, extra large, each	201,841	113,250	88,591	44%
T4529	Pediatric sized disposable incontinence product, brief/diaper, small/medium	9,494	6,700	2,794	29%
T4530	Pediatric sized disposable, incontinence product, brief/diaper, large size, each	94,042	59,093	34,949	37%
T4531	Pediatric sized disposable incontinence product, protective underwear/pull-on, small/medium	32,585	20,809	11,776	36%

HCPCS	Product Description	RI Medicaid Costs	Most Frequently Occurring Charge Amount	Potential Cost Savings	Savings %
T4532	Pediatric sized disposable incontinence product, protective underwear/pull-on, large size, each	120,995	75,899	45,096	37%
T4533	Youth sized disposable incontinence product, brief/diaper, each	135,065	119,099	15,966	12%
T4534	Youth sized disposable incontinence product, protective underwear/pull-on, each	114,395	60,641	53,754	47%
T4535	Disposable liner/shield/guard/pad/undergarment, for incontinence, each	537,763	507,638	30,125	6%
T4541	Incontinence product, disposable underpad, large, each	125,167	112,231	12,936	10%
Total		\$3,257,455	\$2,242,465	\$1,014,990	31%

APPENDIX C: AUDIT SCOPE AND METHODOLOGY

SCOPE

The State agency made DME payments totaling \$7,725,191 for 660 DME items and supplies provided from July 2010 through June 2011. We limited our review to 16 DME incontinence items totaling \$3,257,455, or 42 percent of all DME payments for the audit period. Of the \$3,257,455, the State agency paid providers \$2,528,763 at the fee schedule amount and \$728,692 at the usual and customary amount.

In performing our review, we established reasonable assurance that the claims data was accurate. We did not review the overall internal control structure of the State agency. We limited our internal control review to obtaining an understanding of the State agency's pricing and reimbursement policies related to the 16 selected DME items.

We performed our fieldwork in Cranston and Warwick, Rhode Island, from February through August 2013.

METHODOLOGY

To accomplish our audit objective, we:

- reviewed Federal and State requirements;
- held discussions with State agency and CMS officials to gain an understanding of the DME program and the State agency's role in reimbursing DME claims;
- obtained a State agency file of 73,590 paid claims totaling \$7,725,191 for 660 DME items and supplies provided from July 1, 2010, through June 30, 2011;
- evaluated the State agency file to identify 25,352 paid claims totaling \$3,257,455 that were reimbursed for 16 selected DME incontinence items;
- identified Rhode Island Medicaid fee schedule payment rates for the 16 DME items;
- determined whether the State agency reimbursed the fee schedule payment amounts or the usual and customary charge amounts for the 16 DME incontinence items;
- removed all claims paid at the fee schedule from further analysis;
- evaluated all the remaining claims to determine the most frequently occurring usual and customary charge amounts for the 16 DME items;
- compared the differences between Rhode Island fee schedule amounts for DME items and the most frequently occurring usual and customary charge amounts for the same

DME items during the review period;

- calculated the amounts that the State agency could have paid if the Rhode Island Medicaid program limited reimbursements to the most frequently occurring usual and customary charge amounts;
- compared the amount that the State agency reimbursed providers with the most frequently occurring usual and customary charge amounts to calculate an approximate amount that Rhode Island could have saved for the 16 selected DME incontinence items; and
- discussed our results our audit with State agency officials.

Although we did not independently verify the reliability of all the Medicaid paid claim data, we discussed the data with State agency officials, sorted paid claims to identify variations in payment rates, and compared selected transactions from the State agency files to the Medicaid Management Information System claim files in making a subjective determination of data reliability. In our opinion, the data obtained from the State agency was sufficiently reliable for this audit.

We conducted this performance audit 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.

APPENDIX D: STATE AGENCY COMMENTS



Steven M. Costantino

Secretary of Health and Human Services
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
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June 25, 2014

Mr. David Lamir, Regional Inspector General
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region 1
JFK Federal Building
15 New Sudbury Street, Room 2425
Boston, MA 02203

RE: Rhode Island EOHHS Response for OIG
DME Report

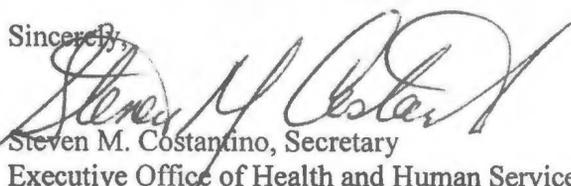
Dear Mr. Lamir:

The Rhode Island Executive Office of Health and Human Services (EOHHS) is responding to the Office of Inspector General Report on Durable Medical Equipment the single state agency for RI Medicaid. After review of the report, EOHHS is in agreement with its conclusions.

If you have any questions or are in need of further information, please call or write at your convenience.

Thank you for your consideration of this response.

Sincerely,


Steven M. Costantino, Secretary
Executive Office of Health and Human Services

SMC/lcs

c: John Sullivan
Deirdre Gifford, MD, Medicaid Director
Bruce McIntyre, JD, Office of Program Integrity