

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF MEDICAID PAYMENTS FOR
OXYGEN RELATED DURABLE
MEDICAL EQUIPMENT AND SUPPLIES
AT THE MICHIGAN DEPARTMENT OF
COMMUNITY HEALTH**

**JANUARY 1, 1998 THROUGH
DECEMBER 31, 1999**



OCTOBER2001
A-05-00-00083



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

REGION V
OFFICE OF
INSPECTOR GENERAL

October 12, 2001

Common Identification Number A-05-00-00083

James Haveman, Director
Department of Community Health
Lewis Cass Building
300 South Walnut Street
Lansing, MI 48913

Dear Mr. Haveman:

This final letter report presents the results of our Audit of Medicaid Payment Amounts for Oxygen Related Durable Medical Equipment and Supplies. We determined that Medicaid providers received reimbursements for oxygen related items of durable medical equipment (DME) and supplies at rates that were higher than the Medicare allowable amount. The higher reimbursements occurred because the State agency did not reflect Medicare reductions in the Medicaid reimbursement limits set for these items.

Based on our review of payments for Medicaid DME and supply claims with dates of "service during our audit period of January 1, 1998 through December 31, 1999, we found that savings of approximately \$2 million (Federal Financial Participation (FFP) \$1 million) could have been realized if the Medicaid rates had been limited to amounts allowable under the Medicare program (annual savings of \$.5 million or \$2.5 million over a five-year budget cycle). We have recommended 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 the Health Care Financing Administration) 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, which generally provides medical care for the elderly. The CMS prepares a fee schedule for DME, prosthetics, orthotics, and supplies provided under the Medicare program. The fee schedule is updated, annually and as needed, by a regional carrier responsible for a specific geographic area. The fee schedule is segregated by CMS Common Procedure Coding System (I-ICPCS) numbers. Groups of HCPCS numbers are associated with specific categories of services. The oxygen category contains 17 specific HCPCS numbers.

Michigan Compiled Law, Section 400.111, establishes the State's intent to reimburse providers for the reasonable value of services, supplies, or equipment received. In establishing a reasonable payment level, the Michigan Medicaid State Plan, Attachment 4.19-B, states that the Medicare prevailing fees, the Michigan Relative Value Study and other relative value information, other State Medicaid fee screens, and providers' charges are utilized as guidelines or reference in determining the maximum fee screens for individual procedures. Payment limits established by Medicare are not specifically established as Medicaid payment limits.

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 Michigan Medicaid program reimbursed providers in excess of State Medicare limits for DME and supplies used to provide oxygen. Our audit covered payments for DME and supply claims with dates of service during our audit period of January 1, 1998 through December 31, 1999.

As part of our review, we obtained an understanding of the internal control structure relative to the payment of claims for DME and supplies. However, the objective of the audit did not require an 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 Michigan Medicaid recipients,
- Obtained the Michigan Medicare payment limits for 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 AUDIT

Although recent changes in the Medicare fee schedules under the Balanced Budget Act of 1997 substantially reduced the payment levels for numerous Medicare items, the State agency did not consider these reductions when establishing the reasonable payment limits for Medicaid. For 1998, the Act stated that the national payment limit for oxygen and oxygen equipment is the 1997 limit reduced by 25 percent. For 1999 and each subsequent year, the payment limit is the 1997 limit reduced by 30 percent. The State did not implement corresponding reductions to the Medicaid fee screens established for oxygen related equipment and supplies.

We reviewed 163,038 paid claims for oxygen related DME and supplies provided to Medicaid recipients during our 2-year audit period. Our audit disclosed that the State Medicaid Supply List contained payment data on 14 of the 17 HCPCS numbers, classified by CMS as oxygen related equipment and supplies under the Medicare fee schedule.

We determined that Medicaid reimbursements for 10 of the 14 oxygen related HCPCS numbers exceeded the associated amounts allowable under the Medicare fee schedule. The following schedule provides two-year details for the 10 HCPCS numbers, including the Medicare fee schedule amount, the number of payments, and the associated Medicaid payments over the Medicare fee schedule.

Year	HCPCS	Description	Medicare Fee Schedule Amounts	Number of Medicaid Payments Exceeding Medicare Fee Amounts	Medicaid Payments in Excess of Medicare Fee Schedule Amount
1998	0A4621	Tracheotomy mask or collar	\$ 1.48	887	\$ 3,683
1999	0A4621	Tracheotomy mask or collar	1.39	678	2,795
1998	0E0431	Portable gaseous O2	38.53	13,500	9,239
1999	0E0431	Portable gaseous O2	35.97	8,435	27,328
1998	0E0434	Portable liquid O2	38.53	119	365
1999	0E0434	Portable liquid O2	35.97	37	167
1998	0E0439	Stationary liquid O2	245.16	141	50,918
1999	0E0439	Stationary liquid O2	228.80	59	48,071
1998	0E0443	Port O2 contents gas/unit	22.96	760	4,619
1999	0E0443	Port O2 contents gas/unit	21.41	451	3,391
1998	0E1400	Oxygen concentrator < 2 lite	245.16	2,861	152,591
1999	0E1400	Oxygen concentrator < 2 lite	228.80	1,480	102,803
1998	0E1401	Oxygen concentrator 2-3 lite	245.16	6,754	368,195
1999	0E1401	Oxygen concentrator 2-3 lite	228.80	5,375	380,777
1998	0E1402	Oxygen concentrator 3-4 lite	245.16	1,788	98,079
1999	0E1402	Oxygen concentrator 3-4 lite	228.80	1,005	71,641
1998	0E1403	Oxygen concentrator 4-5 lite	245.16	5,045	271,702
1999	0E1403	Oxygen concentrator 4-5 lite	228.80	3,621	252,662
1998	0E1404	Oxygen concentrator > 5 lite	245.16	1,307	72,080
1999	0E1404	Oxygen concentrator > 5 lite	228.80	1,189	84,884
	<i>Total:</i>			55,492	\$ 2,005,991

During the two-year audit period, savings of approximately \$2 million (FFP \$1 million) could have been realized if the Medicaid rates for oxygen related DME and supplies were limited to amounts allowable under the Medicare program (annual savings of \$.5 million or \$2.5 million over a five-year budget cycle). We believe that the Medicare payment amounts are generally accepted by the same providers receiving higher Medicaid payments for the same oxygen related DME and supplies. Therefore, the State agency

should consider these revised Medicare payment limits in the reasonable reimbursement limits established for Medicaid.

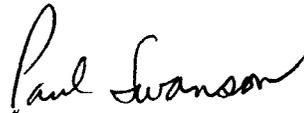
RECOMMENDATION

We recommend that the Department of Community Health:

- Limit the Medicaid payments for oxygen related DME and supplies to amounts reimbursed under the Medicare fee schedule.

In a written response dated August 6, 2001, State agency officials agreed that Medicaid should not pay more than Medicare for oxygen related DME and supplies, particularly if these items are purchased from the same provider. They stated the Department will take action to implement rates comparable to Medicare, barring a determination that statute or regulation would prohibit such action or access to necessary medical services would be jeopardized. Their response is included as an Attachment to this report.

If you have any additional comments or concerns, please address them to the HHS Action Official shown on the Report Distribution List. To facilitate identification, please refer to Common Identification Number A-05-00-00083 in all correspondence related to this report.



Paul Swanson
Regional Inspector General
for Audit Services

Attachment

STATE OF MICHIGAN



JOHN ENGLER, Governor

DEPARTMENT OF COMMUNITY HEALTH

LEWIS CASS BUILDING

LANSING, MICHIGAN 48913

JAMES K. HAVEMAN, JR., Director

August 6, 2001

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

Subject: 05-00-00083

Dear Mr. Swanson:

Enclosed is a copy of our response to the recommendation contained in the audit report titled Audit of Medicaid Payments for Oxygen Related Durable Medical Equipment and Supplies at the Michigan Department of Community Health for the period January 1, 1998 through December 31, 1999.

Please let me know if you have any questions.

Cordially,

A handwritten signature in black ink, appearing to read "JKH", written over the typed name "James K. Haveman, Jr.".

James K. Haveman, Jr.

JKH/kk/jh

Enclosure

cc: David Viele
Robert Smedes
James Hennessey
Pam Myers

**Department of Health and Human Services
Office of Inspector General
Audit of Medicaid Payments for
Oxygen Related Durable Medical
Equipment and Supplies at the
Michigan Department of Community Health**

**January 1, 1998 through December 31, 1999
Identification No. A-05-00-00083**

OIG Recommendation

We recommend that the Department of Community Health:

- Limit the Medicaid payments for oxygen related DME and supplies to amounts reimbursed under the Medicare fee schedule.

Department of Community Health Response

The Department agrees in principle that Medicaid should not pay more than Medicare for oxygen related DME and supplies, particularly if the DME and supplies are being purchased from the same provider. The Department will perform a comparative analysis of the Medicare and Medicaid fee schedules for these items. Barring a determination that doing so would be prohibited by controlling statute or regulation or would jeopardize access to necessary medical services, the Department will take action to implement rates comparable to Medicare for oxygen related DME and supplies.