



DEPARTMENT OF HEALTH AND HUMAN SERVICES

## OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION V  
233 NORTH MICHIGAN, SUITE 1360  
CHICAGO, IL 60601

June 21, 2012

Report Number: A-05-12-00011

Ms. Patricia Casanova  
Director of Medicaid  
Office of Medicaid Policy and Planning  
Indiana Family and Social Services Administration  
402 West Washington Street, Room 461, MS-25  
Indianapolis, IN 46207

Dear Ms. Casanova:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Indiana Reduced Medicaid Costs for Home Blood-Glucose Test Strips by Approximately 50 Percent Using Manufacturer Rebates*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mike Barton, Audit Manager, at (614) 469-2543 or through email at [Mike.Barton@oig.hhs.gov](mailto:Mike.Barton@oig.hhs.gov). Please refer to report number A-05-12-00011 in all correspondence.

Sincerely,

/Sheri L. Fulcher/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, IL 60601

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**INDIANA REDUCED MEDICAID  
COSTS FOR HOME BLOOD-  
GLUCOSE TEST STRIPS BY  
APPROXIMATELY 50 PERCENT  
USING MANUFACTURER REBATES**



Daniel R. Levinson  
Inspector General

June 2012  
A-05-12-00011

# *Office of Inspector General*

<http://oig.hhs.gov>

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Pursuant to section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d), the Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise, if the State assures and CMS finds that adequate services or devices are available to recipients under the special procedures.

In Indiana, the Indiana Family and Social Services Administration, Office of Medicaid Policy and Planning (State agency) administers the Medicaid program. During the period July 1, 2010, through June 30, 2011, the State agency reimbursed providers more than \$4 million for home blood-glucose test strips (test strips).

Pursuant to Indiana Administrative Code 405 IAC Article 5, the State agency provides for eligible pharmacies and durable medical equipment providers in the Indiana Medicaid program to bill for medical supplies, including test strips. Pursuant to Indiana Administrative Code 405 IAC 5-19-1, the State agency reimburses providers the lesser of the submitted charge or the calculated allowable amount. The calculated allowable amount is determined in accordance with Federal and State laws.

The Indiana Medicaid program obtained a waiver from CMS, approved on December 1, 2010, and with no specified end date, to implement a selective contracting program for test strips under the exemptions permitted in section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d). The selective contracting program was structured to obtain manufacturer rebates on test strips and reduce State expenditures.

### **OBJECTIVE**

Our objective was to determine whether the Indiana Medicaid program could achieve savings for test strips.

### **SUMMARY OF FINDINGS**

The Indiana Medicaid program achieved savings of approximately 50 percent by establishing a manufacturer rebate program for test strips. The net cost of test strips obtained through Indiana's manufacturer rebate program was significantly lower than the Indiana Medicaid maximum

reimbursement rate of \$36.72. Indiana has two separate manufacturer rebate contracts that reduced the net cost to \$17.72 or \$14.70 per 50-unit pack. Overall, the Indiana Medicaid program achieved savings of approximately \$1.2 million during the period January 1, 2011, through June 30, 2011, through the use of manufacturer rebates for test strips. The State agency's resourceful use of manufacturer rebates led to significantly reduced costs that provided mutual benefits to the State and Federal government, while maintaining access to test strips for Medicaid beneficiaries.

## **RECOMMENDATION**

We recommend the State agency continue to use its manufacturer rebate program to save Medicaid program funds.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency generally agreed with our recommendation. The State agency's comments are included in their entirety as the Appendix.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Program**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Indiana, the Indiana Family and Social Services Administration, Office of Medicaid Policy and Planning (State agency) administers the Medicaid program.

#### **Federal Requirements**

Pursuant to section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d), the Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise, if the State assures, in the certification required under section 431.51(d), and CMS finds that adequate services or devices are available to beneficiaries under the special procedures.

#### **Indiana Family and Social Services Administration, Office of Medicaid Policy and Planning**

Pursuant to Indiana Administrative Code 405 IAC Article 5, the State agency provides for eligible pharmacies and durable medical equipment providers in the Indiana Medicaid program to bill for medical supplies, including home blood-glucose test strips (test strips). Pursuant to Indiana Administrative Code 405 IAC 5-19-1, the State agency reimburses providers the lesser of the submitted charge or the calculated allowable amount. The calculated allowable amount is determined in accordance with Federal and State laws.

#### **Indiana Medicaid Manufacturer Rebate Program**

The Indiana Medicaid program obtained a waiver from CMS, approved on December 1, 2010 and with no specified end date, to implement a selective contracting program for test strips under the exemptions permitted in section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d). The selective contracting program is structured to obtain manufacturer rebates on test strips and reduce State expenditures while maintaining access to products for Medicaid beneficiaries.

The Indiana Medicaid program solicited proposals from manufacturers of test strips through a Request for Proposal procurement process. The State agency awarded two contracts to manufacturers that provided the largest rebates for the purchase of test strips. The two

manufacturers paid rebates to the State agency based on beneficiary utilization of contracted test strips. The State agency's reimbursement to providers did not change as claims continued to be priced according to Indiana's Medicaid fee schedule. Indiana's manufacturer rebate program became operational in January 2011.

During the period July 1, 2010, through June 30, 2011, the State agency reimbursed providers more than \$4 million for test strips.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the Indiana Medicaid program could achieve savings for test strips.

### **Scope**

Our audit covered Indiana Medicaid payments totaling \$4,724,189 for 128,654 packages of 50 test strips (50-unit pack) supplied to beneficiaries during the period July 1, 2010, through June 30, 2011. We limited our review to paid claims that were reimbursed at Indiana's Medicaid maximum reimbursement rate of \$36.72 for each 50-unit pack of test strips, which represented 95 percent of all test strip claims for the audit period.

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 test strip pricing and reimbursement policies.

Audit documentation was provided electronically by State agency officials. Therefore, no fieldwork was performed in Indiana.

### **Methodology**

To accomplish our audit objective, we:

- reviewed applicable Federal and State requirements;
- discussed the newly established manufacturer test strip rebate program with State agency officials;
- identified the negotiated manufacturer test strip rebates received by the Indiana Medicaid program;
- obtained and reviewed a list of Indiana Medicaid payments for test strips for the period July 1, 2010, through June 30, 2011;

- determined the number of payments that were reimbursed at Indiana's Medicaid maximum reimbursement rate of \$36.72 per 50-unit pack;
- obtained and reviewed the State agency's manufacturer rebate cost analysis report for diabetic supplies for the period of January 1, 2011, through June 30, 2011; and
- determined the approximate amount that the Indiana Medicaid program saved for test strips under the manufacturer rebate program during the period of January 1, 2011, through June 30, 2011.

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 objective.

## **FINDINGS AND RECOMMENDATION**

The Indiana Medicaid program achieved savings of approximately 50 percent by establishing a manufacturer rebate program for test strips. The net cost<sup>1</sup> of test strips obtained through Indiana's manufacturer rebate program was significantly lower than the Indiana Medicaid maximum reimbursement rate of \$36.72. Indiana has two separate manufacturer rebate contracts that reduced the net cost to \$17.72 or \$14.70 per 50-unit pack. Overall, the Indiana Medicaid program achieved savings of approximately \$1.2 million during the period January 1, 2011, through June 30, 2011, through the use of manufacturer rebates for test strips. The State agency's resourceful use of manufacturer rebates led to significantly reduced costs that provided mutual benefits to the State and Federal government, while maintaining access to test strips for Medicaid beneficiaries.

### **INDIANA'S MANUFACTURER REBATE PROGRAM**

The Indiana Medicaid program obtained a waiver from CMS, approved on December 1, 2010 and with no specified end date, to implement a selective contracting program for test strips under the exemptions permitted in section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d). The selective contracting program is structured to obtain manufacturer rebates on test strips and reduce State expenditures while maintaining access to products for Medicaid beneficiaries. The Indiana Medicaid program solicited proposals from manufacturers of test strips through a Request for Proposal procurement process. The State agency awarded two contracts to manufacturers that provided the largest rebates for the purchase of test strips. The two manufacturers paid rebates to the State agency based on beneficiary utilization of contracted test strips. The State agency's reimbursement to providers did not change as claims continued to be priced according to Indiana's Medicaid fee schedule.

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<sup>1</sup> Net cost equals the Medicaid maximum reimbursement rate (per 50-unit pack) minus the applicable manufacturer rebate amount (per 50-unit pack).

Medicaid beneficiaries obtain test strips provided by contractors through drug stores, retail outlets, or by mail-order from providers enrolled in the Indiana Medicaid program. Beneficiaries obtain test strips not covered under the contract if they obtain prior authorization from the State agency based on medical necessity. Indiana’s manufacturer rebate program became operational in January 2011.

**COST SAVINGS ACHIEVED BY THE INDIANA MEDICAID PROGRAM**

The net cost for test strips obtained through Indiana’s manufacturer rebate program was significantly lower than the Indiana Medicaid maximum reimbursement rate of \$36.72. The manufacturer rebate program reduced the net cost to \$17.72 or \$14.70<sup>2</sup> per 50-unit pack. The State agency reimbursed providers \$2.4 million for 66,608 50-unit packs at the Medicaid maximum reimbursement rate of \$36.72 during the period July 1, 2010, through December 31, 2010, and \$2.3 million for 62,046 50-unit packs at the Medicaid maximum reimbursement rate during the period January 1, 2011, through June 30, 2011. We determined that the Indiana Medicaid program received rebates from test strip manufacturers that resulted in a net reduction of Medicaid test strips costs of approximately \$1.2 million during the period January 1, 2011, through June 30, 2011. The manufacturer rebates effectively lowered Medicaid costs for the State and Federal government.

Table 1 details the approximate cost savings achieved through the use of manufacturer rebates during the period January 1, 2011, through June 30, 2011.

**Table 1: Cost Savings Achieved Through Manufacturer Rebates**

	<b>Indiana Medicaid</b>	<b>Indiana Medicaid (After Rebate)</b>	<b>Approximate Cost Savings</b>
Reimbursement rate (per 50-unit pack)	\$36.72	\$16.65 <sup>3</sup>	\$20.07 <sup>4</sup>
Total amount (per 62,046 50-unit packs)	\$2,278,329	\$1,033,266	\$1,245,063

<sup>2</sup> Indiana has two separate manufacturer rebate contracts with net unit costs of \$0.3544 and \$0.294 per unit multiplied by 50 units equaling \$17.72 and \$14.70, respectively. The contracts have an expiration date of December 31, 2013, with a 3-year renewal option.

<sup>3</sup> We determined the approximate amount after rebate for a 50-unit pack of test strips by dividing the total dollar amount after rebate (\$1,033,266) by total units reimbursed (62,046).

<sup>4</sup> We determined the approximate cost savings achieved for a 50-unit pack of test strips by dividing the total amount of cost savings after rebate (\$1,245,063) by total units reimbursed (62,046).

## **RECOMMENDATION**

We recommend the State agency continue to use its manufacturer rebate program to save Medicaid program funds.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency generally agreed with our recommendation. The State agency's comments are included in their entirety as the Appendix.

# **APPENDIX**

## APPENDIX: STATE AGENCY COMMENTS



"People  
helping people  
help  
themselves"

MITCHELL E. DANIELS, JR., GOVERNOR  
STATE OF INDIANA

Office of Medicaid Policy and Planning  
402 W. WASHINGTON STREET, ROOM E442, MS68  
INDIANAPOLIS, IN 46204

May 25, 2012

**SENT VIA CERTIFIED MAIL**

Sheri L. Fulcher  
Regional Inspector General for Audit Services  
Office of Inspector General  
Department of Health and Human Services  
233 North Michigan, Suite 1360  
Chicago, IL 60601

RE: Report Number A-05-12-00011  
Certified Mail Tracking Number: 7011 3500 0000 6508 6194

Dear Ms. Fulcher,

This letter is in response to a draft audit report issued by the Office of Inspector General on April 20, 2012, report number A-05-12-00011 entitled, "*Indiana Reduced Medicaid Costs for Home Blood-Glucose Tests Strips by Approximately 50 Percent Using Manufacturer Rebates.*" The review focused on whether the Indiana Medicaid program could achieve savings for test strips by reviewing the State agency's test strip pricing and reimbursement policies. The audit period was for service dates from 07/01/2010 through 06/30/2011.

The audit finding and recommendation issued by the OIG indicated that the Indiana Medicaid program achieved savings of approximately 50 percent by establishing a manufacturer rebate program for test strips. The net cost of test strips obtained through Indiana's manufacturer rebate program was significantly lower than the Indiana Medicaid maximum reimbursement rate of \$36.72. Indiana has two separate manufacturer rebate contracts that reduced the net cost to \$17.72 or \$14.70 per 50-unit pack. Overall, the Indiana Medicaid program achieved savings of approximately \$1.2 million during the period of January 1, 2011, through June 30, 2011, through the use of manufacturer rebates for test strips. The State agency's resourceful use of manufacturer rebates led to significantly reduced costs that provided mutual benefits to the State and Federal government, while maintaining access to test strips for Medicaid beneficiaries. OIG recommended the State agency continue to use its manufacturer rebate program to save Medicaid program funds.

As recommended in the Draft Audit Report dated April 20, 2012, we are in agreement that the State Agency (the Office of Medicaid Policy and Planning (OMPP)) will continue the diabetic test strip manufacturer rebate program at this time. We will evaluate savings at the end of the contract period(s) to determine if it is in the state's best interest to continue the program as structured or make revisions to enhance the product delivered and savings realized.

We do have a clarification with regard to the specific statement from the Draft Audit Report, which reads "The Indiana Medicaid program obtained a waiver from CMS, approved on December 1, 2010 ..." Indiana would like to provide clarification that we view this program as operating under an *approved agreement* with CMS regarding the rebate/reimbursement structure. We provide this clarification only to avoid any confusion or misinterpretation between this rebate program approved by CMS as opposed to a traditional Medicaid waiver program. Indiana also wants to



clarify that while we cannot verify the exact numbers presented in this Draft Audit Report, Indiana concurs these numbers are a reasonable representation of the savings achieved.

Thank you for allowing us the opportunity to review the audit findings and provide feedback. Please let us know if you have questions regarding our determination or if you require further assistance.

Sincerely,

Patricia Casanova  
Director of Medicaid  
Office of Medicaid Policy and Planning