

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**THE OHIO MEDICAID PROGRAM
COULD SIGNIFICANTLY LOWER
PAYMENT RATES FOR SELECTED
DURABLE MEDICAL EQUIPMENT
AND SUPPLIES**

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A-05-12-00038

Office of Inspector General

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EXECUTIVE SUMMARY

The Ohio Medicaid program could have saved an estimated \$3 million on selected durable medical equipment items by obtaining pricing similar to Medicare's Competitive Bidding Program.

WHY WE DID THIS REVIEW

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 mandated the Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies Competitive Bidding Program (the Competitive Bidding Program). The Competitive Bidding Program sets lower payment rates than conventional Medicare payment rates for selected durable medical equipment and supplies (DME items) while ensuring access to quality items and services.

In a separate audit, we identified an estimated \$8 million that the Ohio Medicaid program could have saved on diabetic test strips if it had obtained pricing similar to the pricing that Medicare obtained through the Competitive Bidding Program, or if it had established a manufacturer rebate program. Diabetic test strips is just 1 of 339 DME items covered by the Competitive Bidding Program. Because of the savings that we identified for diabetic test strips, we conducted this review of other competitively bid DME items.

Our objective was to determine whether the Ohio Medicaid program could have achieved cost savings for 43 selected DME items.

BACKGROUND

The Ohio Department of Job and Family Services (State agency) administers the Ohio Medicaid program. The State agency allows eligible providers, including hospitals, physicians, podiatrists, advanced practical nurses, clinics, and pharmacies, in the Ohio Medicaid program to bill for DME items. The State agency reimburses providers the lesser of the dollar amount of the submitted charge or the Medicaid maximum payment rate. Medicare's Competitive Bidding Program established two competitive bidding areas (CBA) in Ohio.

HOW WE CONDUCTED THIS REVIEW

Our review covered Medicaid payments for 43 selected DME items for the period April 1, 2010, through March 31, 2011. We limited our review to paid lines of service that were reimbursed at Ohio's Medicaid maximum payment rate, which represented 96 percent of all lines of service for the audit period. We compared the Ohio Medicaid program payment for DME items with the average Ohio Medicare CBA payment for the same products during the review period.

WHAT WE FOUND

The Ohio Medicaid program could have saved an estimated \$3 million by establishing a competitive bidding program for DME items similar to pricing that Medicare obtained through its Competitive Bidding Program. We determined that Medicare payment rates obtained through competitive bids in 2 Ohio CBAs for the 43 selected DME items were significantly lower than the Ohio Medicaid maximum payment rate.

WHAT WE RECOMMEND

We recommend that the State agency establish competitive bidding that functions similarly to Medicare's Competitive Bidding Program for the purchase of selected DME items, which could have resulted in cost savings of approximately \$3 million for the 1-year period we reviewed.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency indicated that it supports competitive bidding and believes that the market is most efficient at setting prices. The State agency concurred with our recommendation but suggested the use of a manufacturer's model as an alternative approach. The State agency believed that this approach yields equivalent savings with a far more salutary effect on employment. Although we support the use of alternative methods, we have not reviewed the manufacturer's model and take no position as to its adequacy and effectiveness.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 mandated the Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies Competitive Bidding Program (the Competitive Bidding Program). The Competitive Bidding Program sets lower payment rates than conventional Medicare payment rates for selected durable medical equipment and supplies (DME items) while ensuring access to quality items and services.

In a separate audit, we identified an estimated \$8 million that the Ohio Medicaid program could have saved on diabetic test strips if it had obtained pricing similar to the pricing that Medicare obtained through the Competitive Bidding Program, or if it had established a manufacturer rebate program.¹ Diabetic test strips is just 1 of 339 DME items covered by the Competitive Bidding Program. Because of the savings that we identified for diabetic test strips, we conducted this review of other competitively bid DME items.

OBJECTIVE

Our objective was to determine whether the Ohio Medicaid program could have achieved cost savings for 43 selected DME items.

BACKGROUND

The Medicaid Program: How Payment Rates Are Determined for Durable Medical Equipment Items

The Ohio Department of Job and Family Services (State agency) administers the Ohio Medicaid program. The State agency allows eligible providers, including hospitals, physicians, podiatrists, advanced practical nurses, clinics, and pharmacies, in the Ohio Medicaid program to bill for DME items.² The State agency reimburses providers the lesser of the submitted charge or the Medicaid maximum payment rate.³ The maximum payment rates are 100 percent of the amount set by the State agency on the Medicaid fee schedule.⁴ The Medicaid maximum payment rates used by the State may be less than the maximums permitted under Federal law but may not be more. The State's appropriation committee determines the total amount of funds that may be expended for health services under Medicaid.

The Ohio Medicaid program may apply to the Centers for Medicare & Medicaid Services (CMS) for a waiver to establish special procedures for the purchase of medical devices through competitive bidding or through another process if the State assures, in the certification required,

¹ Report number A-05-11-00098.

² Ohio Administrative Code 5101:3-10-01.

³ Ohio Administrative Code 5101:3-1-60.

⁴ Ohio Administrative Code 5101:3-1-60(J)(3).

and CMS finds that adequate services or devices are available to beneficiaries under the special procedures.⁵

Obtaining Lower Rates of Payment: How the Federal Government Has Obtained Lower Prices for Durable Medical Equipment Items

Under Medicare's Competitive Bidding Program, prices for selected DME items sold in specified competitive bidding areas (CBA) are determined by suppliers' bids rather than a fee schedule. The Competitive Bidding Program was intended to reduce beneficiary out-of-pocket expenses and create savings for taxpayers and the Medicare program while ensuring that high-quality health care products and services are available to beneficiaries.

The first round of bidding closed in December 2009, and competitive bidding became operational as of January 2011 in nine metropolitan areas, including two in Ohio. The first round of bidding included 339 DME items, identified by Healthcare Common Procedure Coding System (HCPCS) codes and descriptors established by CMS from the following 9 product categories:

- Oxygen supplies and equipment;
- Standard power wheelchairs, scooters, and related accessories;
- Complex rehabilitative power wheelchairs and related accessories - Group 2;
- Mail-order diabetic supplies;
- Enteral nutrients, equipment, and supplies;
- Continuous positive airway pressure devices (CPAP), respiratory assist devices (RAD), and related supplies and accessories;
- Hospital beds and related accessories;
- Walkers and related accessories; and
- Support surfaces - Group 2 mattresses and overlays (Miami-Fort Lauderdale-Pompano Beach, Florida, CBA only).

HOW WE CONDUCTED THIS REVIEW

Our review covered Medicaid payments for 43 selected DME items from 6 CBA product categories for the period April 1, 2010, through March 31, 2011.⁶ We limited our review to paid lines of service that were reimbursed at Ohio's Medicaid maximum payment rate for the 43

⁵ Social Security Act, section 1915(a)(1)(B), 42 CFR § 431.51(d), and 42 CFR § 431.54(d).

⁶ See Appendixes C and D for a detailed listing of product categories and DME items that were reviewed.

items, which represented 96 percent of all lines of service for the audit period. We compared the Ohio Medicaid maximum payment rates for DME items with the average Ohio Medicare CBA payment rates, effective January 1, 2011, for the same products.

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 A contains the details of our scope and methodology. Appendix B contains State and Federal requirements for purchases of DME items.

FINDING

MEDICARE COMPETITIVE BIDDING PROGRAM RATES SIGNIFICANTLY LOWER THAN OHIO MEDICAID MAXIMUM PAYMENT RATES FOR SELECTED ITEMS OF DURABLE MEDICAL EQUIPMENT

The Ohio Medicaid program could have saved an estimated \$3 million by establishing a competitive bidding program for DME items similar to pricing that Medicare obtained through its Competitive Bidding Program. We determined that Medicare payment rates obtained through competitive bids in 2 Ohio CBAs for the 43 selected DME items were significantly lower than the Ohio Medicaid maximum payment rate.

POTENTIAL COST SAVINGS FROM COMPETITIVE BIDDING

For the 43 selected DME items that we reviewed, the State agency reimbursed providers \$10.5 million for 266,712 lines of service at the Medicaid maximum payment rate during the audit period April 1, 2010, through March 31, 2011. We estimate that the State agency's cost could have been reduced to \$7.4 million for the selected DME items if it had used a competitive bidding program to obtain pricing similar to Medicare's Competitive Bidding Program. Table 1 summarizes the potential cost savings achievable through the use of competitive bidding for six product categories of selected DME items. See Appendix C for a detailed listing of potential cost savings for the six product categories.

Table 1: Potential Ohio Medicaid Cost Savings Through Competitive Bidding

Product Category	OH Medicaid Costs	OH Medicare CBA Costs (Average of Two CBAs)	Potential Cost Savings	Average Savings Percentage
Oxygen equipment and supplies	\$5,143,707	\$3,516,002	\$1,627,705	32%
Enteral nutrients, equipment, and supplies	3,229,961	2,551,848	678,113	21%
Diabetic supplies	1,495,803	878,789	617,014	41%
CPAP, RAD, and related supplies and accessories	462,191	339,442	122,749	27%
Hospital beds and related accessories	68,913	51,245	17,668	26%
Walkers and related accessories	120,940	111,166	9,774	8%
Total	\$10,521,515	\$7,448,492	\$3,073,023	29%

Table 2 details the average Ohio Medicaid maximum payment rate and the average Ohio Medicare CBA payment rate in 2011 for six product categories of selected DME items. See Appendix D for the complete list of Ohio Medicaid and Ohio Medicare CBA payment rates for the 43 selected DME items comprising the 6 product categories.

Table 2: Average Payment Rates for DME Items by Product Category

Product Category	Average OH Medicaid Payment Rate	Average OH Medicare CBA Payment Rate
Oxygen equipment and supplies	\$116	\$77
Enteral nutrients, equipment, and supplies	13	11
Diabetic supplies	9	5
CPAP, RAD, and related supplies and accessories	68	50
Hospital beds and related accessories	238	191
Walkers and related accessories	55	48

Table 3 illustrates three examples of potential cost savings achievable through a reduction of the Ohio Medicaid maximum payment rate to Ohio Medicare CBA payment rates.

Table 3: Examples of Potential Cost Savings Using the Average of Two Ohio Medicare CBA Payment Rates

Product Description (HCPCS)	Ohio Medicaid Payment Rate	Ohio Medicare CBA Payment Rate (Average of Two CBAs)	Units Reimbursed	Potential Cost Savings
Oxygen concentrator (E1390)	\$153.64	\$104.80 ⁷	28,733	\$1,403,320
Lancets (A4259)	0.07	0.0411 ⁸	20,136,885	581,956
Enteral formula (B4150)	0.61	0.46	1,932,207	\$289,831

⁷ The Ohio Medicaid reimbursement rate and the Ohio Medicare CBA rate are based on a monthly rental price per unit for E1390 (stationary compressed gaseous oxygen system).

⁸ Medicare reimburses lancets per box of 100 units. We divided the average rate of the 2 CBAs in Ohio by 100 units for comparison to Ohio's Medicaid maximum payment rate of \$0.07 per unit.

RECOMMENDATION

We recommend that the State agency establish competitive bidding that functions similarly to Medicare's Competitive Bidding Program for the purchase of select DME items, which could have resulted in cost savings of approximately \$3 million for the 1-year period we reviewed.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency indicated that it supports competitive bidding and believes that the market is most efficient at setting prices. The State agency concurred with our recommendation but suggested the use of a manufacturer's model as an alternative approach. The State agency believed that this approach yields equivalent savings with a far more salutary effect on employment. Although we support the use of alternative methods, we have not reviewed the manufacturer's model and take no position as to its adequacy and effectiveness.

The State agency's comments appear in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit included Medicaid payments for 43 selected DME items for the period April 1, 2010, through March 31, 2011. We limited our review to paid lines of service that were reimbursed at Ohio's Medicaid maximum payment rate for the 43 items, which represented 96 percent of all lines of service for the audit period.

Of the 339 DME items comprising the first round of bidding under the Medicare Competitive Bidding Program, the 43 items came from 6 product categories.⁹ We excluded product categories associated with power wheelchairs and items not covered under the Ohio Medicare Competitive Bidding Program, such as group 2 mattresses and overlays. Additionally, we excluded DME items that (1) were included with bundled services under Ohio's Medicaid fee schedule, (2) were not covered by the Ohio Medicaid program, (3) were not billed at the Ohio Medicaid maximum payment rate, or (4) were reviewed in a previous audit.¹⁰

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 43 selected DME items.

We performed our fieldwork in Columbus, Ohio, in June 2012.

METHODOLOGY

To accomplish our audit objective, we:

- identified Ohio Medicare CBAs and their payment rates;
- identified DME items included in Medicare's Competitive Bidding Program that are reimbursed by the Ohio Medicaid program;
- obtained and reviewed a list of Ohio Medicaid payments for 43 selected DME items for April 1, 2010, through March 31, 2011;
- calculated the average of the two Medicare CBA payment rates available in Ohio;
- compared the Ohio Medicaid program payment for DME items with the average Ohio Medicare CBA payment for the same DME items during the review period;

⁹ Three of the forty-three selected DME items are for diabetic supplies that utilize mail-order pricing.

¹⁰ In our audit of diabetic test strips, we identified \$8 million that the Ohio Medicaid program could have saved during State fiscal year 2011 if it had established a competitive bidding program or used manufacturer rebates (report number A-05-11-00098).

- determined the number of payments that were reimbursed at Ohio’s Medicaid maximum payment rate for 43 selected items;
- calculated the amounts that the State agency could have paid if the Ohio Medicaid program had used competitive bidding to obtain pricing similar to Medicare’s Competitive Bidding Program; and
- compared the amount that the State agency reimbursed providers with the amount calculated under the Medicare CBA payment rate to determine the approximate amount that Ohio could have saved.

Although we did not independently verify the reliability of the Medicaid paid claim data, we discussed the data with State agency officials, sorted paid claims to identify variations in payment rates, and compared the total number of DME claims to other State Medicaid programs 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 B: STATE AND FEDERAL REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT PURCHASES

OHIO REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT PURCHASES

Ohio Administrative Code 5101:3-10-01 allows the State agency to permit eligible providers, including hospitals, physicians, podiatrists, advanced practical nurses, clinics, and pharmacies, in the Ohio Medicaid program to bill for DME items.

Ohio Administrative Code 5101:3-1-60 allows the State agency to reimburse providers the lesser of the submitted charge or the Medicaid maximum payment rate. The maximum payment rates are 100 percent of the amount set by the State agency on the Medicaid fee schedule. The payment is determined in accordance with Federal and State laws and regulations.

FEDERAL REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT PURCHASES

Medicaid Durable Medical Equipment

Section 1915(a)(1)(B) of the Social Security Act (the Act) and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d) allow the Medicaid agency to 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.

Medicare Durable Medical Equipment

Section 1834(a) of the Act provides the requirements for the DME fee schedule payment methodology. Medicare generally pays for most medical equipment and supplies on the basis of fee schedules. Pursuant to 42 CFR § 405.502(a), the law allows for flexibility in the determination of reasonable charges to accommodate reimbursement to the various ways in which health services are furnished and charged for. The criteria for determining what charges are reasonable include the prevailing charges in the locality for similar services. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003¹¹ mandated that CMS establish the Competitive Bidding Program for selected durable medical equipment, prosthetics, orthotics, and supplies categories by January 1, 2011, in competitive bidding areas. Round 1 of the Competitive Bidding Program was implemented on January 1, 2011, for nine product categories in nine competitive bidding areas.

¹¹ P. L. No. 108-173, section 302, amending Social Security Act § 1847.

APPENDIX C: POTENTIAL COST SAVINGS FOR SIX SELECTED DURABLE MEDICAL EQUIPMENT PRODUCT CATEGORIES

Product Category	HCPCS	OH Medicaid Costs	Average OH Medicare CBA Costs	Potential Cost Savings	Savings %
Oxygen equipment and supplies	E1390	\$4,414,538	\$3,011,218	\$1,403,320	32
	E0431	443,017	322,030	120,987	27
	E0439	184,702	115,909	68,793	37
	E0424	69,305	43,492	25,813	37
	E0434	31,838	23,143	8,695	27
	E1391	307	210	97	32
	Total	\$5,143,707	\$3,516,002	\$1,627,705	32
Enteral nutrients, equipment, and supplies	B4150	1,178,646	888,815	289,831	25
	B4152	636,428	486,687	149,741	24
	B4153	712,114	602,246	109,868	15
	B4154	261,320	183,157	78,163	30
	B4034	194,455	171,455	23,000	12
	B4155	82,295	65,269	17,026	21
	B4036	128,913	123,863	5,050	4
	E0776	15,450	11,985	3,465	22
	B4082	7,074	6,247	827	12
	B4087	10,351	9,662	689	7
	B4081	2,878	2,432	446	15
	B4083	37	30	7	19
	Total	\$3,229,961	\$2,551,848	\$678,113	21
Diabetic supplies	A4259	1,409,582	827,626	581,956	41
	A4258	48,922	21,384	27,538	56
	A4256	37,299	29,779	7,520	20
	Total	\$1,495,803	\$878,789	\$617,014	41
CPAP, RAD, and related supplies and accessories	E0601	144,693	111,880	32,813	23
	E0470	108,870	76,725	32,145	30
	E0562	108,442	84,324	24,118	22
	A7035	48,965	31,347	17,618	36
	A7037	35,822	22,951	12,871	36
	A7039	5,609	3,621	1,988	35
	A7033	2,926	2,466	460	16
	A7038	5,246	4,843	403	8
	A7036	1,618	1,285	333	21
Total	\$462,191	\$339,442	\$122,749	27	

APPENDIX C

Product Category	HCPCS	OH Medicaid Costs	Average OH Medicare CBA Costs	Potential Cost Savings	Savings %
Hospital beds and related accessories	E0260	\$57,758	\$42,614	\$15,144	26%
	E0303	6,079	4,714	1,365	22%
	E0310	2,156	1,475	681	32%
	E0304	1,850	1,574	276	15%
	E0261	1,070	868	202	19%
	Total	\$68,913	\$51,245	\$17,668	26%
Walkers and related accessories	E0143	71,610	64,736	6,874	10%
	E0148	6,544	4,706	1,838	28%
	E0154	2,263	1,760	503	22%
	E0135	14,805	14,534	271	2%
	E0156	5,145	5,018	127	2%
	E0149	20,250	20,131	119	1%
	E0159	300	263	37	12%
	A4637	23	18	5	22%
Total	\$120,940	\$111,166	\$9,774	8%	
Grand Total	\$10,521,515	\$7,448,492	\$3,073,023	29%	

**APPENDIX D: POTENTIAL COST SAVINGS FOR 43 SELECTED
DURABLE MEDICAL EQUIPMENT ITEMS**

HCPCS	Product Brief Description	Ohio Medicaid Payment Rate	Ohio Medicare CBA Payment Rate (Average of Two CBAs)	Potential Cost Savings (Per Unit Reimbursed)
E0304	Hospital bed, extra heavy duty (rental)	\$616.54	\$524.57	\$91.97
E0424	Stationary compressed gaseous oxygen system (rental)	167.00	104.80	62.20
E0439	Stationary liquid oxygen system (rental)	167.00	104.80	62.20
E0470	Respiratory assist device (rental)	190.00	133.90	56.10
E0303	Hospital bed, heavy duty, extra wide (rental)	243.18	188.57	54.61
E0562	Humidifier	225.92	175.68	50.24
E1390	Oxygen concentrator, single delivery port (rental)	153.64	104.80	48.84
E1391	Oxygen concentrator, dual delivery port (rental)	153.64	104.80	48.84
E0310	Bed side rails	143.74	98.35	45.39
E0148	Walker, heavy duty	109.07	78.44	30.63
E0260	Hospital bed, semi-electric (rental)	98.90	72.97	25.93
E0601	CPAP device (rental)	77.50	59.93	17.57
E0261	Hospital bed, semi-electric (rental)	89.20	72.31	16.89
E0776	IV pole	75.00	58.18	16.82
A7035	Headgear used with airway pressure device	34.95	22.38	12.57
E0154	Walker, platform attachment	51.44	39.99	11.45

APPENDIX D

HCPCS	Product Brief Description	Ohio Medicaid Payment Rate	Ohio Medicare CBA Payment Rate (Average of Two CBAs)	Potential Cost Savings (Per Unit Reimbursed)
A7037	Tubing used with airway pressure device	\$28.75	\$18.42	\$10.33
A4258	Lancet spring-powered device	13.75	6.01	7.74
E0431	Portable gaseous oxygen system (rental)	28.25	20.54	7.71
E0434	Portable liquid oxygen system (rental)	28.25	20.54	7.71
E0143	Walker, folding, wheeled	66.00	59.67	6.33
A7039	Filter used with airway pressure device	12.30	7.94	4.36
A7033	Replacement pillow for use on nasal cannula type interface	21.36	18.00	3.36
B4081	Nasogastric tubing	19.19	16.22	2.97
A4259	Lancets (per 100 pack)	7.00 ¹²	4.11	2.89
A7036	Chinstrap used with airway pressure device	13.60	10.80	2.80
B4087	Gastrostomy/jejunostomy tube	29.66	27.69	1.97
E0159	Replacement brake attachment for walker	15.00	13.15	1.85
B4082	Nasogastric tubing	14.29	12.62	1.67
A4256	Calibrator solution/chips	6.25	4.99	1.26
E0135	Walker, folding	47.00	46.14	0.86
E0149	Walker, heavy duty, wheeled	135.00	134.21	0.79

¹² Ohio's Medicaid maximum payment rate of \$0.07 per unit multiplied by 100 units equals \$7.

APPENDIX D

HCPCS	Product Brief Description	Ohio Medicaid Payment Rate	Ohio Medicare CBA Payment Rate (Average of Two CBAs)	Potential Cost Savings (Per Unit Reimbursed)
B4034	Enteral feeding supply kit	\$3.72	\$3.28	\$0.44
A4637	Replacement tip for cane/crutch/walker	1.90	1.46	0.44
E0156	Seat attachment for walker	15.00	14.63	0.37
B4083	Stomach tube	2.05	1.69	0.36
B4154	Enteral formula, nutritionally complete for special metabolic needs	1.12	0.79	0.33
B4153	Enteral formula, nutritionally complete	1.75	1.48	0.27
A7038	Disposable filter used with airway pressure device	3.25	3.00	0.25
B4036	Enteral feeding supply kit, gravity fed	4.85	4.66	0.19
B4155	Enteral formula, nutritionally incomplete modular nutrients	0.87	0.69	0.18
B4150	Enteral formula, nutritionally complete with intact nutrients	0.61	0.46	0.15
B4152	Enteral formula, nutritionally complete, calorically dense	0.51	0.39	0.12

APPENDIX E: STATE AGENCY COMMENTS

Ohio

Office of
Medical Assistance

John R. Kasich, Governor
John B. McCarthy, Director

March 11, 2013

Ms. Gloria L. Jarmon
Deputy Inspector General
Office of Inspector General
Office of Audit Services, Region V
233 North Michigan, Suite 1360
Chicago, IL 60601

Re: report number: A-05-12-00038

Dear Ms. Jarmon:

The Office of Medical Assistance is in receipt of your recent report titled *The Ohio Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies*.

Like CMS, we support competitive bidding, believing the market is most efficient at setting prices. There are some important distinctions, however, between how we have structured the competitive bidding process compared to the approach by Medicare. Chief among these is that under Medicare providers who don't submit winning bids are excluded from participating in the market. This can and surely does result in job losses, particularly for smaller firms and those lacking a diversified payer mix.

We've recently taken a different approach to competitive bidding, choosing instead to employ what's often referred to as the manufacturer's model. Under this model, any willing DME provider can compete for market share, and reimbursement remains at the historical level of the fee schedule. Savings arise in the form of manufacturer rebates, similar to how Medicaid agencies have purchased pharmaceuticals from the drug companies for years. Just last month we awarded vendor contracts for diabetic test strips and supplies using the manufacturer's model with a reduction in expenditures of 76 percent as a result.

Our state economy seems at long last to be on the mend, but we remain vigilant about the impact policy can have on that recovery. We concur with your recommendation to adopt selective contracting and differ only on the form that contracting should take. We believe our approach yields equivalent savings with a far more salutary effect on employment.

Thank you for your report. We appreciate the recommendations and look forward to collaborating with you on future endeavors.

Sincerely,

John B. McCarthy
State Medicaid Director

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