

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**STATE MEDICAID AGENCIES CAN
SIGNIFICANTLY REDUCE MEDICAID
COSTS FOR DURABLE MEDICAL
EQUIPMENT AND SUPPLIES**

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A-05-15-00025

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

Select State Medicaid agencies could have saved an estimated \$30.1 million on selected durable medical equipment and supplies by obtaining pricing similar to Medicare's Competitive Bidding Program, and similar opportunities may be available to other State Medicaid agencies.

WHY WE DID THIS REVIEW

During recent Medicaid audits, we determined that selected durable medical equipment and supplies (DME items) are available to the Centers for Medicare & Medicaid Services (CMS) at a cost well below that available to State Medicaid agencies. This report summarizes the findings of those four audits and identifies an opportunity for additional cost savings over a 12-month period for three of the States and a 24-month period for the fourth State.

Our objective was to summarize the results of prior audits that identified opportunities for State Medicaid agencies to achieve cost savings for selected DME items.

BACKGROUND

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, 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.

Medicare Part B pays for DME items. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required CMS to establish a competitive bidding program for selected DME item categories in Competitive Bidding Areas (CBAs). Round 1 competition for the Competitive Bidding Program occurred in 2009 in nine CBAs. Round 1 became effective January 1, 2011, and included 339 DME items in 9 product categories. Round 1 product categories included oxygen supplies and equipment, wheelchairs and scooters, and diabetic supplies, among others.

Round 2 competition for the Competitive Bidding Program occurred in 2011 in 100 CBAs. CMS also conducted a national mail-order competition for diabetic testing supplies at the same time as the Round 2 competition. The American Taxpayer Relief Act of 2012 stipulated that payments for diabetic supplies that are non-mail-order items shall be equal to the single payment amounts established under the national mail-order competition for diabetic supplies. CMS is required by law to recompete contracts under the Competitive Bidding Program at least once every 3 years. Round 2 included 202 DME items that were grouped into 8 product categories. Round 2 DME items and national mail-order contracts and prices became effective on July 1, 2013, and will expire on June 30, 2016.

State Medicaid agencies may obtain a waiver from CMS to establish special procedures for the purchase of DME items. States may initiate a competitive bidding program to reduce the amount reimbursed to providers of DME items. Under a competitive bidding program, Medicaid suppliers would submit bids to State Medicaid agencies to provide DME items to Medicaid beneficiaries. The State Medicaid agencies would award contracts to the suppliers that offered the best price and met applicable quality and financial standards.

States may also establish arrangements in which manufacturers of DME items agree to provide a rebate to the States for each of the manufacturers' products dispensed to Medicaid beneficiaries and billed to State Medicaid agencies. Under the rebate programs, the States reimburse Medicaid providers the normal Medicaid fee schedule payment amount and subsequently receive a refund from the manufacturer based on the established rebate amount. A prior Office of Inspector General audit determined that the Indiana and New York Medicaid agencies had saved a total of \$17.9 million through the use of manufacturer rebates for one DME item (diabetic test strips). In addition, the Ohio Medicaid agency implemented a rebate program for the purchase of diabetic test strips and supplies that resulted in a reported 76-percent reduction in expenditures.

HOW WE CONDUCTED THIS REVIEW

We conducted audits in California, Minnesota, New York, and Ohio to determine whether opportunities exist for State Medicaid agencies to achieve savings for selected DME items. In our reviews, we requested a year of each State's Medicaid Management Information System (MMIS) paid claims data for selected DME items. For the New York audit, we requested 2 years of MMIS paid claims data. We reviewed each State's Medicaid reimbursement rate for selected DME items and compared those rates with available Medicare rates to determine the amount of potential savings had the States used a competitive bidding program similar to the Medicare program during our audit periods.

WHAT WE FOUND

In our previous audits of four State Medicaid agencies, we found that the States could have achieved savings of approximately \$18.1 million on the purchase of selected DME items had they obtained pricing comparable to pricing under Round 1 of Medicare's Competitive Bidding Program. Since issuing the previous audit reports, we identified \$12 million in additional cost savings for the selected DME items that the four States could have obtained by using pricing comparable to Medicare's Round 2 Competitive Bidding and National Mail-Order Programs.

We found that Medicaid provider reimbursement rates for selected DME items varied significantly among the States that we reviewed. We determined that opportunities exist for these States to lower provider reimbursement rates, resulting in approximately \$30.1 million in potential cost savings for the States and the Federal Government. We did not determine the cost of implementing a rebate or competitive bidding program in each State.

WHAT WE RECOMMEND

We recommend that CMS:

- seek legislative authority to limit State Medicaid DME reimbursement rates to Medicare program rates and
- encourage further reduction of Medicaid reimbursement rates through competitive bidding or manufacturer rebates.

CMS COMMENTS

In written comments on our draft report, CMS concurred with our recommendations.

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INTRODUCTION

WHY WE DID THIS REVIEW

During recent Medicaid audits, we determined that selected durable medical equipment and supplies (DME items) are available to the Centers for Medicare & Medicaid Services (CMS) at a cost well below that available to State Medicaid agencies. This report summarizes the findings of those four audits and identifies an opportunity for additional cost savings over a 12-month period for three of the States and a 24-month period for the fourth State.

OBJECTIVE

Our objective was to summarize the results of prior audits that identified opportunities for State Medicaid agencies to achieve cost savings for selected DME items.

BACKGROUND

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, 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.

State Medicaid agencies may obtain a waiver from CMS to establish special procedures for the purchase of DME items.¹ States may initiate a competitive bidding program to reduce the amount reimbursed to providers of DME items. Under a competitive bidding program, Medicaid suppliers would submit bids to State Medicaid agencies to provide DME items to Medicaid beneficiaries. The State Medicaid agencies would award contracts to the suppliers that offered the best price and met applicable quality and financial standards.

States may also establish arrangements in which manufacturers of DME items agree to provide a rebate to the States for each of the manufacturers' products dispensed to Medicaid beneficiaries and billed to State Medicaid agencies. Under the rebate programs, the States reimburse Medicaid providers the normal Medicaid fee schedule payment amount and subsequently receive a refund from the manufacturer based on the established rebate amount. A prior Office of Inspector General audit determined that the Indiana and New York Medicaid agencies had saved a total of \$17.9 million through the use of manufacturer rebates for one DME item (diabetic test strips).² In addition, the Ohio Medicaid agency implemented a rebate program for the purchase of diabetic test strips and supplies that resulted in a reported 76-percent reduction in its expenditures.

¹ 42 CFR § 431.51(d) and 42 CFR § 431.54(d).

² *State Medicaid Agencies Can Significantly Reduce Medicaid Costs for Diabetic Test Strips* (A-05-13-00033, issued March 18, 2014).

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

Medicare Durable Medical Equipment Competitive Bidding – Round 1

Medicare Part B pays for DME items. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required CMS to establish a competitive bidding program for selected DME item categories in Competitive Bidding Areas (CBAs).³ Round 1 competition for the Competitive Bidding Program occurred in 2009 in nine CBAs. Round 1 became effective January 1, 2011, and included 339 DME items in 9 product categories. Round 1 product categories included oxygen supplies and equipment, wheelchairs and scooters, and diabetic supplies, among others.

Round 1 of the Competitive Bidding Program lowered the Medicare fee schedule payment amounts for DME items. The intended result was 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. During the first 2 years, CMS estimates that the program achieved Medicare cost savings of approximately \$400 million and did not appear to adversely affect beneficiary access to DME items.⁴

Medicare Durable Medical Equipment Competitive Bidding – Round 2

CMS is required by law to recompetete contracts under the Competitive Bidding Program at least once every 3 years.⁵ Round 2 competition for the Competitive Bidding Program occurred in 2011 in 100 CBAs. Round 2 prices became effective on July 1, 2013, and will expire on June 30, 2016. Round 2 included 202 DME items in 8 product categories.⁶ Round 2 included similar product categories as Round 1 and added a product category for negative-pressure wound therapy pumps and supplies.

Medicare National Mail-Order Program

CMS also conducted a national mail-order competition for diabetic testing supplies at the same time as the Round 2 competition. The American Taxpayer Relief Act of 2012 stipulated that payments for diabetic supplies that are non-mail-order items shall be equal to the single payment

³ CBAs represent a geographic area that Medicare selected to participate in the competitive bidding program.

⁴ GAO report entitled “*Second Year Update for CMS's Durable Medical Equipment Competitive Bidding Program Round 1 Rebid.*” GAO-14-156 (March 7, 2014), <http://www.gao.gov/assets/670/661474.pdf>. Accessed on May 5, 2015.

⁵ Social Security Act § 1847(b)(3).

⁶ Two wheelchair product categories were combined into one product category, the diabetic supplies category was dropped and was included in Medicare’s National Mail-Order program, and the negative-pressure wound therapy category was added, resulting in a net decrease of one product category between Round 1 and Round 2.

amounts established under the national mail-order competition for diabetic supplies.⁷ National mail-order contracts and prices became effective July 1, 2013, and expire on June 30, 2016.

HOW WE CONDUCTED THIS REVIEW

We conducted audits in California, Minnesota, New York, and Ohio to determine whether opportunities exist for State Medicaid agencies to achieve savings for selected DME items.⁸ In our reviews, we requested a year of each State's Medicaid Management Information System (MMIS) paid claims data for selected DME items. For the New York audit, we requested 2 years of MMIS paid claims data. We reviewed each State's Medicaid reimbursement rate for selected DME items and compared those rates with available Medicare rates to determine the amount of potential savings had the States used a competitive bidding program similar to the Medicare program during our audit periods.

Appendix A contains the details of our scope and methodology, Appendix B contains the applicable Federal requirements, and Appendix C contains a listing of related Office of Inspector General reports.

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.

FINDINGS

In our previous audits of four State Medicaid agencies, we found that the States could have achieved savings of approximately \$18.1 million on the purchase of selected DME items had they obtained pricing comparable to pricing under Round 1 of Medicare's Competitive Bidding Program. Since issuing the previous audit reports, we identified \$12 million in additional cost savings for the selected DME items that the four States could have obtained by using pricing comparable to Medicare's Round 2 Competitive Bidding and National Mail-Order Programs.

Table 1 details the reported cost savings in our four previous audits as well as additional cost savings using Medicare's Round 2 Competitive Bidding Program and National Mail-Order Program pricing.

⁷ P.L. No. 112-240 § 636 (Jan. 2, 2013).

⁸ The number of DME items selected varied among each audit. A complete list of DME items selected is contained in each audit report. See Appendix C for a list of the audit report numbers.

Table 1: Potential Cost Savings from Lower Provider Reimbursement Rates

| State | Number of Months Reviewed | Reported Potential Cost Savings | Additional Cost Savings | Total Potential Savings |
|--------------|----------------------------------|--|--------------------------------|--------------------------------|
| New York | 24 | \$8,873,419 | \$8,631,819 | \$17,505,238 |
| California | 12 | 3,878,852 | 1,060,022 | 4,938,874 |
| Ohio | 12 | 3,073,023 | 1,579,402 | 4,652,425 |
| Minnesota | 12 | 2,268,928 | 740,701 | 3,009,629 |
| Total | | \$18,094,222 | \$12,011,944 | \$30,106,166 |

We found that Medicaid provider reimbursement rates for selected DME items varied significantly among the States that we reviewed. We determined that opportunities exist for these States to lower provider reimbursement rates, resulting in approximately \$30.1 million in potential cost savings over the respective 12- and 24-month audit periods for the States and the Federal Government. We did not determine the cost of implementing a rebate or competitive bidding program in each State.

POTENTIAL MEDICAID COST SAVINGS FOR SELECTED DURABLE MEDICAL EQUIPMENT AND SUPPLIES USING PRICING OBTAINED IN MEDICARE’S ROUND 1 COMPETITIVE BIDDING PROGRAM COULD BE SIGNIFICANT

New York, California, Ohio, and Minnesota Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies

In our previous audits of New York, California, Ohio, and Minnesota, we found the States could have achieved savings of approximately \$18.1 million⁹ on the purchase of selected DME items had they obtained pricing comparable to pricing under Round 1 of Medicare’s Competitive Bidding Program.

The New York Medicaid agency could have saved an estimated \$8.9 million from January 1, 2011, through December 31, 2012, by establishing a competitive bidding program for DME items similar to pricing that Medicare obtained through its Competitive Bidding Program. For 54 of the 70 selected DME items that we reviewed, we determined that average Medicare payment rates obtained through competitive bids were significantly lower than New York’s average Medicaid payment rates.

The California Medicaid agency could have saved an estimated \$3.9 million from January 1, 2011, through December 31, 2011, by establishing a competitive bidding program for reimbursement of standard power wheelchairs, oxygen systems, and oxygen concentrators similar to Medicare’s Competitive Bidding Program or by revising its reimbursement

⁹ As a result of rounding, cost savings from the four audits total \$18.2 million (\$8.9 million, \$3.9 million, \$3.1 million, and \$2.3 million). However, actual cost savings total \$18.1 million. See Table 2 for the cost savings reported in each audit report and total savings.

methodology to obtain pricing similar to the California Medicare CBA payment rates. For the three product types reviewed, we determined that Medicare payment rates in California's CBA were significantly lower than the California Medicaid payment amounts.

The Ohio Medicaid agency could have saved an estimated \$3.1 million from April 1, 2010, through March 31, 2011, 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.

The Minnesota Medicaid agency could have saved an estimated \$2.3 million from January 1, 2012, through December 31, 2012, by establishing a competitive bidding program for DME items similar to pricing that Medicare obtained through its Competitive Bidding Program. We determined that average Medicare payment rates obtained through competitive bids for the 42 selected DME items were significantly lower than Minnesota's average Medicaid payment rates.

Table 2 on the next page details the reported cost savings by product category in our four previous audits using Medicare's Round 1 Competitive Bidding Program pricing.

Table 2: Cost Savings Reported By Product Category Using Medicare’s Round 1 Competitive Bidding Program Pricing

| DME Product Category | Reported Potential Cost Savings (NY) | Reported Potential Cost Savings (CA) | Reported Potential Cost Savings (OH) | Reported Potential Cost Savings (MN) | Total Reported Potential Cost Savings |
|--|---|---|---|---|--|
| Oxygen supplies and equipment | \$3,101,080 | \$1,166,664 | \$1,627,705 | - | \$5,895,449 |
| Enteral nutrients, equipment, and supplies | 4,220,052 | - | 678,113 | \$968,767 | 5,866,932 |
| Standard power wheelchairs, scooters, and related accessories | 717,274 | 2,712,188 | - | - | 3,429,462 |
| Mail-order diabetic supplies | 315,909 | - | 617,014 | 866,180 | 1,799,103 |
| CPAPs, RADs, ¹⁰ and related supplies and accessories | 120,514 | - | 122,749 | 385,101 | 628,364 |
| Walkers and related accessories | 311,997 | - | 9,774 | 26,544 | 348,315 |
| Hospital beds and related accessories | 80,039 | - | 17,668 | 22,336 | 120,043 |
| Complex rehabilitative power wheelchairs and related accessories | 6,554 | - | - | - | 6,554 |
| Total | \$8,873,419 | \$3,878,852 | \$3,073,023 | \$2,268,928 | \$18,094,222 |

¹⁰ Continuous positive airway pressure devices (CPAPs) and respiratory assist devices (RADs).

OPPORTUNITIES EXIST FOR ADDITIONAL COST SAVINGS BY USING PRICING OBTAINED IN MEDICARE’S ROUND 2 COMPETITIVE BIDDING AND NATIONAL MAIL-ORDER PROGRAMS

Round 2 of the Competitive Bidding Program and the National Mail-Order Program further reduced pricing for DME items. For the same 12- and 24-month audit periods, Table 3 details additional cost savings of \$12 million that the four States we audited could have achieved by implementing payment rates for selected DME items using pricing obtained in Medicare’s Round 2 Competitive Bidding Program and National Mail-Order Program.

Table 3: Additional Cost Savings Using Medicare’s Round 2 Competitive Bidding Program and National Mail-Order Program Pricing

| DME Product Category | Additional Cost Savings (NY) | Additional Cost Savings (CA) | Additional Cost Savings (OH) | Additional Cost Savings (MN) | Total Additional Cost Savings |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| Oxygen supplies and equipment | \$1,766,703 | \$1,060,022 | \$543,482 | - | \$3,370,207 |
| Enteral nutrients, equipment, and supplies | 4,296,704 | - | 427,259 | \$385,952 | 5,109,915 |
| Standard (power and manual) wheelchairs, scooters, and related accessories | 368,737 | - | - | - | 368,737 |
| Mail-order diabetic supplies | 1,944,097 | - | 513,692 | 172,060 | 2,629,849 |
| CPAPs, RADs, and related supplies and accessories | 99,471 | - | 66,095 | 176,514 | 342,080 |
| Walkers and related accessories | 109,964 | - | 24,059 | 8,627 | 142,650 |
| Hospital beds and related accessories | 46,143 | - | 4,815 | (2,452) | 48,506 |
| Total | \$8,631,819 | \$1,060,022 | \$1,579,402 | \$740,701 | \$12,011,944 |

CONCLUSION

Our audits identified opportunities for States to significantly lower Medicaid payment rates for DME items. Medicaid payment rates for selected DME items were significantly higher than pricing obtained in Round 1 of Medicare's Competitive Bidding Program. However, implementing a competitive bidding program is not the only way for State Medicaid agencies to reduce expenditures for DME items and to achieve cost savings. Some State Medicaid agencies have used manufacturer rebates to significantly lower Medicaid expenditures for both the States and the Federal Government while maintaining beneficiary access to DME items. If State Medicaid agencies could replicate the lower prices obtained by the Medicare program through reduced provider reimbursement rates or manufacturer rebates, they could achieve significant cost savings.

RECOMMENDATIONS

We recommend that CMS:

- seek legislative authority to limit State Medicaid DME reimbursement rates to Medicare program rates and
- encourage further reduction of Medicaid reimbursement rates through competitive bidding or manufacturer rebates.

CMS COMMENTS

In written comments on our draft report, CMS concurred with our recommendations. CMS's comments are included in their entirety as Appendix D.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our prior reviews covered various 12- and 24-month audit periods from April 1, 2010, through December 31, 2012. We conducted our fieldwork at State Medicaid agencies in California, Minnesota, New York, and Ohio from June 2012 through May 2014.

METHODOLOGY

To accomplish our objective, we analyzed the findings and recommendations from our prior audits. As part of the prior audits, we also:

- reviewed applicable Federal and State laws and regulations;
- identified the Medicare payment rates for DME items in nine CBAs;
- obtained and reviewed a list of Medicaid paid claims for DME items;¹¹
- determined the number of Medicaid paid claims and amounts that were reimbursed;
- calculated the amounts that the State Medicaid agency would have paid if competitive bidding programs were in place; and
- determined the approximate amount of cost savings for DME items by comparing the amount that the State Medicaid agency reimbursed providers with the amount calculated under competitive bidding programs.

For the same 12- and 24-month audit periods, we determined the amount of additional cost savings that the four States could have obtained by using pricing comparable to Medicare's Round 2 Competitive Bidding Program and the National Mail-Order Program.

Although we did not independently verify the reliability of the data, we compared it with other available supporting documents to determine data consistency and reasonableness. From these efforts, we maintain that the data obtained is sufficiently reliable for this report.

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.

¹¹ The number of DME items selected varied among each audit. A complete list of DME items selected is contained in each audit report. See Appendix C for a list of the audit report numbers.

APPENDIX B: FEDERAL REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT AND SUPPLY PURCHASES AND PAYMENTS

MEDICAID SPECIAL PROCEDURES FOR MEDICAL DEVICES PURCHASES

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) specify that a State Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or other process 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 FEE SCHEDULE

Section 1834(a) of the Act provides the requirements for the Durable Medical Equipment fee schedule payment methodology. Medicare generally pays for most medical equipment and supplies on the basis of fee schedules. The amount allowed for payment is generally equal to the lesser of the Medicare fee schedule amount or the amount charged by a supplier. Medicare fee schedule payments for durable medical equipment, prosthetics, orthotics, and supplies are updated each year by a measure of price inflation and a productivity adjustment.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT, AND MODERNIZATION ACT OF 2003

Section 1847(a) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, entitled *Establishment of Competitive Acquisition Programs*, directs the Secretary of Health and Human Services to establish and implement programs under which competitive acquisition areas are established throughout the United States for contract award purposes for the furnishing of competitively priced DME items and services.

AMERICAN TAXPAYER RELIEF ACT OF 2012

Section 636 of the American Taxpayer Relief Act of 2012, entitled *Medicare Payment of Competitive Prices for Diabetic Supplies and Elimination of Overpayment for Diabetic Supplies*, provides that the payment amount under this part for diabetic supplies, including test strips, that are non-mail-order items (as defined by the Secretary) shall be equal to the single payment amounts established under the national mail-order competition for diabetic supplies.

APPENDIX C: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

| Report Title | Report Number | Date Issued |
|---|--------------------------------------|--------------------|
| <i>The New York Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies</i> | <u>A-02-13-01042</u> | 2/4/2015 |
| <i>The California Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment</i> | <u>A-09-13-02028</u> | 3/24/2014 |
| <i>State Medicaid Agencies Can Significantly Reduce Medicaid Costs for Diabetic Test Strips</i> | <u>A-05-13-00033</u> | 3/18/2014 |
| <i>The Minnesota Medicaid Program Could Significantly Lower Payment Rates For Selected Durable Medical Equipment and Supplies</i> | <u>A-05-13-00015</u> | 1/13/2014 |
| <i>The Ohio Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies</i> | <u>A-05-12-00038</u> | 4/30/2013 |

APPENDIX D: CMS COMMENTS



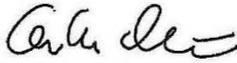
DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

AUG - 3 2015

200 Independence Avenue SW
Washington, DC 20201

To: Daniel R. Levinson
Inspector General
Office of the Inspector General

From: Andrew M. Slavitt 
Acting Administrator
Centers for Medicare & Medicaid Services

Subject: State Medicaid Agencies Can Significantly Reduce Medicaid Costs for Durable Medical Equipment and Supplies (A-05-15-00025)

The Centers for Medicare & Medicaid Services (CMS) appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) draft report. CMS is committed to the fiscal integrity of the Medicaid program and takes its responsibility to taxpayers seriously.

Because Medicaid is jointly funded by states and the Federal Government and is administered by states within Federal guidelines, both the Federal Government and states have key roles as stewards of the program, and CMS and states work together closely to carry out these responsibilities. Under the Medicaid Federal-state partnership, the Federal Government sets forth a policy framework for the program and states have significant flexibility to choose options that enable them to deliver high quality, cost-efficient care for their residents. CMS is committed to working with states and other partners to advance efforts that promote health, improve the quality of care, and lower health care costs.

CMS provides several avenues for states to reduce Medicaid costs for Durable Medical Equipment (DME). States may obtain a waiver from CMS to establish competitive bidding procedures for the purchase of DME for Medicaid enrollees. States may also establish arrangements in which DME manufacturers agree to provide a rebate to States for the difference between the price paid and the normal Medicaid fee schedule payment amount. Such arrangements have been utilized in several States including Ohio and New York. The decision as to whether or not to enter into a competitive bidding or manufacturer rebate program is a decision made by each State Medicaid program to accommodate their population's needs. CMS communicates frequently with States through the State plan process to inform them of all available options, including manufacturer rebates and competitive bidding procedures, for their DME purchasing programs.

OIG Recommendation

The OIG recommends that CMS seek legislative authority to limit State Medicaid DME reimbursement rates to Medicare program rates.

CMS Response

CMS concurs with this recommendation. The FY 2016 President's Budget included a proposal entitled "Limit Medicaid Reimbursement of Durable Medical Equipment Based on Medicare Rates" that meets the terms of this recommendation.

OIG Recommendation

The OIG recommends that CMS encourage further reduction of Medicaid reimbursement rates through competitive bidding or manufacturer rebates.

CMS Response

CMS concurs with this recommendation. States have the flexibility to administer their Medicaid programs in accordance with a CMS-approved State plan. CMS communicates frequently with States through the State plan process to inform them of all available options, including manufacturer rebates and competitive bidding procedures, for their DME purchasing programs.