

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**THE CALIFORNIA MEDICAID  
PROGRAM COULD  
SIGNIFICANTLY LOWER  
PAYMENT RATES FOR SELECTED  
DURABLE MEDICAL EQUIPMENT**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General

March 2014  
A-09-13-02028

# *Office of Inspector General*

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

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## EXECUTIVE SUMMARY

*The California Medicaid program could have saved an estimated \$3.9 million on standard power wheelchairs, oxygen systems, and oxygen concentrators for 2011 by establishing a program similar to Medicare's Competitive Bidding Program or revising its reimbursement methodology to obtain pricing similar to that program's payment rates.*

### WHY WE DID THIS REVIEW

The Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies Competitive Bidding Program (the Competitive Bidding Program) sets lower payment rates than conventional Medicare payment rates for selected durable medical equipment (DME). Previously issued Office of Inspector General reports on selected DME identified potential cost savings if Medicaid State agencies had obtained pricing similar to the Competitive Bidding Program payment rates. This review is part of a series of reviews in various States to identify Medicaid program cost savings that could be achieved for selected DME and supplies.

Our objective was to determine whether the California Medicaid program (Medi-Cal) could have achieved cost savings for standard power wheelchairs, oxygen systems, and oxygen concentrators.

### BACKGROUND

The California Department of Health Care Services (State agency) administers the Medi-Cal program. The State agency allows eligible Medi-Cal providers (e.g., DME suppliers, hospitals, and physicians) to bill for DME, including standard power wheelchairs, oxygen systems, and oxygen concentrators. According to the State agency's reimbursement methodology, providers are reimbursed the lesser of (1) the dollar amount of the amount billed; (2) the guaranteed acquisition cost plus a percentage markup established by the State agency; or (3) for standard power wheelchairs, an amount that does not exceed 100 percent of the lowest maximum allowance for California established by the Medicare program for the same or a similar item or service or, for oxygen systems and concentrators, 80 percent of the lowest such allowance.

Under the Medicare Competitive Bidding Program, prices for selected DME sold in specified competitive bidding areas (CBAs) are determined by suppliers' bids rather than a fee schedule. Effective January 2011, the Competitive Bidding Program established one CBA in California during the first round of bidding (first-round California Medicare CBA).

### HOW WE CONDUCTED THIS REVIEW

Our review covered Medi-Cal payments of approximately \$12 million made in calendar year (CY) 2011 for standard power wheelchairs, oxygen systems, and oxygen concentrators. For these three product types, we reviewed all Medi-Cal payments for the lines of service for which providers were allowed to be reimbursed at the Medi-Cal maximum payment rates. We compared Medi-Cal's payments for these product types with the first-round California Medicare

CBA payment rates for the same product types during the review period and calculated a potential cost savings.

## **WHAT WE FOUND**

The Medi-Cal program could have saved an estimated \$3.9 million for CY 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 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 Medi-Cal payment amounts.

## **WHAT WE RECOMMEND**

We recommend that the State agency establish a competitive bidding program similar to Medicare's Competitive Bidding Program for reimbursement of standard power wheelchairs, oxygen systems, and oxygen concentrators or revise its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates for these product types, which could have resulted in cost savings of approximately \$3.9 million for the 1-year period we reviewed.

## **STATE AGENCY COMMENTS AND OUR RESPONSE**

In written comments on our draft report, the State agency disagreed with our finding that the Medi-Cal program could have saved an estimated \$3.9 million. The State agency commented that it believed the savings estimate may be overstated. Regarding the recommendation, the State agency commented that implementing a competitive bidding program for DME rate-setting would require a significant workload and a lengthy competitive bidding process. The State agency indicated that it would be more cost-effective to align DME rates to 80 percent of Medicare's rates annually and that it will update its DME Medi-Cal rates in 2014, which may provide pricing similar to the California Medicare CBA payment rates. The State agency also indicated that it will review a competitive bidding program to determine the benefits and costs associated with adopting this reimbursement methodology in the future.

After reviewing the State agency's comments, we maintain that our finding and our methodology for calculating the potential cost savings are valid.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Medicare Durable Medical Equipment, Prosthetics, Orthotics, and Supplies Competitive Bidding Program (the Competitive Bidding Program) sets lower payment rates than conventional Medicare payment rates for selected durable medical equipment (DME). Previously issued Office of Inspector General (OIG) reports on selected DME identified potential cost savings if Medicaid State agencies had obtained pricing similar to the Competitive Bidding Program payment rates. This review is part of a series of reviews in various States to identify Medicaid program cost savings that could be achieved for selected DME and supplies. (See Appendix A for a list of related OIG reports.)

### OBJECTIVE

Our objective was to determine whether the California Medicaid program (Medi-Cal) could have achieved cost savings for standard power wheelchairs, oxygen systems, and oxygen concentrators.

### BACKGROUND

#### **The Medi-Cal Program: How Payment Rates Are Determined for Durable Medical Equipment**

The California Department of Health Care Services (State agency) administers the Medi-Cal program. The State agency allows eligible Medi-Cal providers (e.g., DME suppliers, hospitals, and physicians) to bill for DME, including standard power wheelchairs, oxygen systems, and oxygen concentrators.<sup>1</sup> According to the State agency's reimbursement methodology, providers are reimbursed the lesser of (1) the dollar amount of the submitted charge; (2) the guaranteed acquisition cost plus a percentage markup established by the State agency; or (3) for standard power wheelchairs, an amount that does not exceed 100 percent of the lowest maximum allowance for California established by the Medicare program for the same or a similar item or service or, for oxygen systems and concentrators, 80 percent of the lowest such allowance.<sup>2</sup>

The Medi-Cal program may establish special procedures for purchasing medical devices through competitive bidding or another process if the State assures (in the required certification) and the Centers for Medicare & Medicaid Services (CMS) finds that adequate services or devices are available to beneficiaries under those procedures.<sup>3</sup>

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<sup>1</sup> California Code of Regulations (CCR), Title 22, section 51321.

<sup>2</sup> California Welfare and Institutions Code, section 14105.48; CCR, Title 22, section 51521.

<sup>3</sup> Section 1915(a)(1)(B) of the Social Security Act (the Act) and 42 CFR §§ 431.51(d) and 431.54(d).

## **The Medicare Competitive Bidding Program: How the Federal Government Has Obtained Lower Prices for Durable Medical Equipment**

Under the Medicare Competitive Bidding Program, prices for selected DME sold in specified competitive bidding areas (CBAs) are determined by suppliers' bids rather than a fee schedule. The goal of the Competitive Bidding Program is 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 CBAs nationwide, including one in California consisting of Riverside, San Bernardino, and Ontario (first-round California Medicare CBA).<sup>4</sup> This round of bidding included 339 different DME items and supplies, identified by Healthcare Common Procedure Coding System (HCPCS) codes and descriptors established by CMS from 9 product categories, which include (1) oxygen supplies and equipment<sup>5</sup> and (2) standard power wheelchairs, scooters, and related accessories. The product types we reviewed came from those two categories.

### **HOW WE CONDUCTED THIS REVIEW**

Our review covered Medi-Cal payments of \$12,030,711 made in calendar year (CY) 2011 for standard power wheelchairs, oxygen systems, and oxygen concentrators. For these three product types, we reviewed all Medi-Cal payments for the lines of service for which providers were allowed to be reimbursed at the Medi-Cal maximum payment rates. We compared Medi-Cal's payments for these product types with the first-round California Medicare CBA payment rates for the same product types during the review period and calculated a potential cost savings.<sup>6</sup> We did not, however, analyze the cost associated with setting up a competitive bidding program under Medi-Cal.

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 contains the details of our audit scope and methodology. Appendix C contains the State and Federal requirements for reimbursement of DME.

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<sup>4</sup> CMS implemented competitive bidding in an additional 11 CBAs in California in the second round of bidding. For these areas, competitive bidding became operational as of July 2013.

<sup>5</sup> Two of the product types we reviewed, oxygen systems and oxygen concentrators, are part of this DME category.

<sup>6</sup> The California Medicare CBA payment rates for the second round of bidding were not available until after our analysis was complete.

## FINDING

### **MEDI-CAL COULD HAVE ACHIEVED SIGNIFICANT COST SAVINGS THROUGH COMPETITIVE BIDDING OR REVISING ITS REIMBURSEMENT METHODOLOGY**

The Medi-Cal program could have saved an estimated \$3.9 million by establishing a competitive bidding program for standard power wheelchairs, oxygen systems, and oxygen concentrators similar to Medicare's Competitive Bidding Program or by revising its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates.

We determined that Medicare payment rates obtained through competitive bids in the California CBA for standard power wheelchairs, oxygen systems, and oxygen concentrators were significantly lower than the Medi-Cal payment amounts. For the three product types that we reviewed, the State agency reimbursed providers \$12,030,711 for 53,167 lines of service for which providers were allowed to be reimbursed the Medi-Cal maximum payment rates from January 1 through December 31, 2011.

We estimated that the State agency's payments could have been reduced to \$8,151,859 if the State agency had used a competitive bidding program similar to Medicare's Competitive Bidding Program or had revised its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates. This would have saved the Medi-Cal program \$3,878,852, or 32 percent of the total payments for the three DME product types reviewed. See the table below for the potential cost savings for each of the three product types.

**Table: Potential Cost Savings to Medi-Cal for the Three DME Product Types Reviewed**

<b>Product Type</b>	<b>Medi-Cal Payments</b>	<b>California Medicare CBA Payments</b>	<b>Potential Cost Savings</b>	<b>Savings Percentage</b>
Standard power wheelchairs	\$6,459,059	\$3,746,871	\$2,712,188	42
Oxygen concentrators	4,915,410	3,849,825	1,065,585	22
Oxygen systems	656,242	555,163	101,079	15
<b>Total</b>	<b>\$12,030,711</b>	<b>\$8,151,859</b>	<b>\$3,878,852</b>	<b>32</b>

## RECOMMENDATION

We recommend that the State agency establish a competitive bidding program similar to Medicare's Competitive Bidding Program for reimbursement of standard power wheelchairs, oxygen systems, and oxygen concentrators or revise its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates for these product types,<sup>7</sup> which

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<sup>7</sup> Because we did not analyze the cost associated with setting up a competitive bidding program under Medi-Cal, it may be more cost effective for the State agency to revise its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates.

could have resulted in cost savings of approximately \$3.9 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 disagreed with our finding that the Medi-Cal program could have saved an estimated \$3.9 million. The State agency commented that it believed the savings estimate may be overstated because there are varied economic regions throughout the State that were not taken into account in our report. The State agency also commented that it is likely that the savings amount would decrease with the inclusion of higher cost areas. In addition, the State agency noted that rate methodology changes or updates that reduce provider rates could cause issues with access to care for beneficiaries.

Regarding our recommendation, the State agency commented that implementing a competitive bidding program methodology for DME rate-setting would require a significant workload and a lengthy competitive bidding process. The State agency also commented that our savings estimate did not take into account the cost associated with developing and implementing a competitive bidding program. The State agency indicated that it would be more cost-effective to align DME rates to 80 percent of Medicare's rates annually and that it will update its DME Medi-Cal rates in 2014, which may provide pricing similar to the California Medicare CBA payment rates. The State agency also indicated that it will review a competitive bidding program to determine the benefits and costs associated with adopting this reimbursement methodology in the future.

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

After reviewing the State agency's comments, we maintain that our finding and our methodology for calculating the potential cost savings are valid. As noted in our report, we calculated the potential cost savings using the California Medicare CBA payment rates that were available when we did our analysis. In addition, as noted in our report, we did not analyze the cost associated with setting up a competitive bidding program under Medi-Cal and therefore indicated that it may be more cost-effective for the State agency to revise its reimbursement methodology.

**APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>The Minnesota Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies</i>	<a href="#"><u>A-05-13-00015</u></a>	1/13/2014
<i>Medicaid DMEPOS Costs May Be Exceeding Medicare Costs in Competitive Bidding Areas</i>	<a href="#"><u>OEI-06-13-00470</u></a>	9/5/2013
<i>New Jersey Medicaid Program Could Achieve Savings by Reducing Home Blood-Glucose Test Strip Prices</i>	<a href="#"><u>A-02-12-01010</u></a>	9/5/2013
<i>The New York State Manufacturer Rebate Program Significantly Reduced Medicaid Costs for Home Blood-Glucose Test Strips But Could Achieve Additional Reductions</i>	<a href="#"><u>A-02-11-01042</u></a>	7/2/2013
<i>Illinois Significantly Reduced Medicaid Costs for Home Blood-Glucose Test Strips But Could Achieve Additional Reductions</i>	<a href="#"><u>A-05-12-00009</u></a>	5/6/2013
<i>The Ohio Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies</i>	<a href="#"><u>A-05-12-00038</u></a>	4/30/2013
<i>Indiana Reduced Medicaid Costs for Home Blood-Glucose Test Strips by Approximately 50 Percent Using Manufacturer Rebates</i>	<a href="#"><u>A-05-12-00011</u></a>	6/21/2012
<i>Ohio Medicaid Costs for Home Blood-Glucose Test Strips Could Be Reduced by Approximately 50 Percent</i>	<a href="#"><u>A-05-11-00098</u></a>	3/13/2012

## APPENDIX B: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our audit covered Medi-Cal payments of \$12,030,711 made in CY 2011 for standard power wheelchairs, oxygen systems, and oxygen concentrators. For these three product types, we reviewed all Medi-Cal payments for the lines of service for which providers were allowed to be reimbursed at the Medi-Cal maximum payment rates. We did not, however, analyze the cost associated with setting up a competitive bidding program under Medi-Cal.

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 reimbursement policies related to the three DME product types reviewed.

We conducted our audit from January to July 2013 and performed our fieldwork at the State agency's office in Sacramento, California.

### METHODOLOGY

To accomplish our objective, we:

- reviewed Federal and State requirements for reimbursement of DME;
- identified the California Medicare CBA established as a result of the first round of bidding and its payment rates;
- identified the HCPCS codes for standard power wheelchairs, oxygen systems, and oxygen concentrators (the three product types reviewed) included in the first-round California Medicare CBA that are reimbursed by the Medi-Cal program;
- reviewed Medi-Cal payments for the three product types that were paid in CY 2011;<sup>8</sup>
- identified the Medi-Cal payments for the lines of service for which providers were allowed to be reimbursed at the Medi-Cal maximum payment rates;<sup>9</sup>
- determined the total number of payments and amounts reimbursed to providers by the State agency for each of the three product types;
- calculated the amounts that the State agency would have paid under the Medicare Competitive Bidding Program by multiplying the number of payments by the first-round California Medicare CBA payment rates for each of the three product types;

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<sup>8</sup> These payments had dates of service during the period January 1, 2010, through December 31, 2011.

<sup>9</sup> These were the lines of service for which the Medi-Cal allowed amounts equaled the Medi-Cal maximum payment rates. The Medi-Cal allowed amount is the maximum amount payable for a service by Medi-Cal and generally represents what Medi-Cal would pay before any adjustments are made (e.g., for beneficiary coinsurance).

- determined the potential cost savings for CY 2011 by comparing the total amounts that the State agency reimbursed providers for the three product types with the amounts calculated using the first-round California Medicare CBA payment rates; and
- discussed the results of our review with State agency officials.

Although we did not independently verify the reliability of the Medicaid paid claim data, we discussed the data with State agency officials, analyzed paid claims to identify variations in payment rates, and obtained claim detail to verify Medi-Cal payment amounts for selected claims to determine the reliability of the data. From these efforts, we concluded that the data obtained from the State agency were 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 C: STATE AND FEDERAL REQUIREMENTS FOR REIMBURSEMENT OF DURABLE MEDICAL EQUIPMENT**

### **CALIFORNIA REQUIREMENTS**

The CCR, Title 22, section 51321, allows the State agency to permit eligible Medi-Cal providers, including hospitals, physicians, podiatrists, nurse practitioners, clinics, and pharmacies, to bill for DME items.

The California Welfare and Institutions Code, section 14105.48, and the CCR, Title 22, section 51521, allow the State agency to reimburse providers for DME items. The reimbursement amount varies depending on the type of DME item and the reimbursement options; however, the reimbursement amount is always the least amount available for reimbursement. For purposes of this audit, the reimbursement amount is the lesser of (1) the dollar amount of the submitted charge; (2) the guaranteed acquisition cost plus a percentage markup established by the State agency; or (3) for standard power wheelchairs, an amount that does not exceed 100 percent of the lowest maximum allowance for California established by the Medicare program for the same or a similar item or service or, for oxygen systems and concentrators, 80 percent of the lowest such allowance.

### **FEDERAL REQUIREMENTS**

#### **Medicaid Purchases of Durable Medical Equipment and Supplies**

According to section 1915(a)(1)(B) of the Act and requirements established in 42 CFR §§ 431.51(d) and 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.

#### **Medicare Payment for Durable Medical Equipment and Supplies**

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. According 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 which charges are reasonable include the prevailing charges in the locality for similar services.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003<sup>10</sup> mandated that CMS establish the Competitive Bidding Program for selected DME, prosthetics, orthotics, and supplies categories 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. Round 2 was implemented on July 1, 2013, for 8 of the same product categories in 100 competitive bidding areas.

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<sup>10</sup> P.L. No. 108-173, section 302, amending section 1847 of the Act.

## APPENDIX D: STATE AGENCY COMMENTS



State of California—Health and Human Services Agency  
Department of Health Care Services



EDMUND G. BROWN JR.  
GOVERNOR

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Audit Services, Region IX  
90-7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Dear Ms. Ahlstrand:

The California Department of Health Care Services (DHCS) has prepared its response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled *The California Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment*, audit number A-09-13-02028.

DHCS appreciates the work performed by OIG and the opportunity to respond to the draft report. Please contact Ms. Sarah Hollister, Audit Coordinator, at (916) 445-2410 if you have any questions.

Sincerely,

Toby Douglas  
Director

Enclosure

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Ms. Lori A. Ahlstrand  
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**SECRETARY'S ACTION REQUESTED**

**TO:** Diana S. Dooley, Secretary  
Health and Human Services Agency

**FROM:** Toby Douglas, Director  
Department of Health Care Services

**PREPARED BY:** Sarah Hollister, Audit Coordinator  
Internal Audits  
(916) 445-2410  
auditcor@dhcs.ca.gov

**DATE:** January 6, 2013

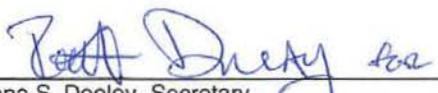
**SUBJECT:** Department of Health Care Services' 30-day response to the Office of the Inspector General's draft report entitled, "The California Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment" audit number A-09-13-02028.

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Request for Approval | <input type="checkbox"/> For Secretary's Information          |
| <input type="checkbox"/> Request for Discussion          | <input checked="" type="checkbox"/> For Secretary's Signature |
|  | <input type="checkbox"/> For Governor's Information           |

**APPROVED:**

  
 \_\_\_\_\_  
 Toby Douglas, Director  
 Department of Health Care Services

\_\_\_\_\_  
Date

  
 \_\_\_\_\_  
 Diana S. Dooley, Secretary  
 Health and Human Services Agency

1/8/14  
\_\_\_\_\_  
Date

**SUMMARY/PRO-CON ARGUMENTS:**

**Background**

The California Department of Health Care Services (State agency) administers the Medi-Cal program. The State agency allows eligible Medi-Cal providers (e.g., DME suppliers, hospitals, and physicians) to bill for DME, including standard power wheelchairs, oxygen systems, and oxygen concentrators. According to the State agency's reimbursement methodology, providers are reimbursed the lesser of (1) the dollar amount of the amount billed; (2) the guaranteed acquisition cost plus a percentage markup established by the State agency; or (3) for standard power wheelchairs, an amount that does not exceed 100 percent of the lowest maximum allowance for California established by the Medicare program for the same or a similar item or service or, for oxygen systems and concentrators, 80 percent of the lowest such allowance. Under the Medicare Competitive Bidding Program, prices for selected DME sold in specified competitive bidding areas (CBAs) are determined by suppliers' bids rather than a fee schedule. Effective January 2011, the Competitive Bidding Program established one CBA in California during the first round of bidding (first-round California Medicare CBA).

**Summary of Findings**

The Medi-Cal program could have saved an estimated \$3.9 million by establishing a competitive bidding program for standard power wheelchairs, oxygen systems, and oxygen concentrators similar to Medicare's Competitive Bidding Program or by revising its reimbursement methodology to obtain pricing similar to the California Medicare Competitive Bidding Area (CBA) payment rates.

The OIG determined that Medicare payment rates obtained through competitive bids in the California Medicare CBA for standard power wheelchairs, oxygen systems, and oxygen concentrators were significantly lower than the Medi-Cal payment amounts. For the three product types that were reviewed, the State agency reimbursed providers \$12,030,711 for 53,167 lines of service for which providers were allowed to be reimbursed the Medi-Cal maximum payment rates from January 1 through December 31, 2011.

The OIG estimated that the State agency's payments could have been reduced to \$8,151,859 if it had used a competitive bidding program similar to Medicare's Competitive Bidding Program or had revised its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates. This would have saved the Medi-Cal program \$3,878,852, or 32 percent of the total payments for the three durable medical equipment (DME) product types reviewed.

**DHCS Response**

DHCS does not agree with OIG's finding. Please see attached for more detail.

DHCS' 30 Day Response to Draft Report  
OIG DME Audit  
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**EFFECTS ON EXISTING LAW:** N/A

**TIME FACTOR:** Due to Agency by January 15, 2014  
Due to OIG by January 23, 2014

**RECOMMENDATION:** Approval

**Department of Health Care Services Response to the  
Office of Inspector General's Draft Report Entitled:  
The California Medicaid Program Could Significantly Lower Payment  
Rates for Selected Durable Medical Equipment**

**Finding #1: MEDI-CAL COULD HAVE ACHIEVED SIGNIFICANT COST SAVINGS  
THROUGH COMPETITIVE BIDDING OR REVISING ITS REIMBURSEMENT  
METHODOLOGY**

The Medi-Cal program could have saved an estimated \$3.9 million by establishing a competitive bidding program for standard power wheelchairs, oxygen systems, and oxygen concentrators similar to Medicare's Competitive Bidding Program or by revising its reimbursement methodology to obtain pricing similar to the California Medicare Competitive Bidding Area (CBA) payment rates.

The OIG determined that Medicare payment rates obtained through competitive bids in the California Medicare CBA for standard power wheelchairs, oxygen systems, and oxygen concentrators were significantly lower than the Medi-Cal payment amounts. For the three product types that were reviewed, the State agency reimbursed providers \$12,030,711 for 53,167 lines of service for which providers were allowed to be reimbursed the Medi-Cal maximum payment rates from January 1 through December 31, 2011.

The OIG estimated that the State agency's payments could have been reduced to \$8,151,859 if it had used a competitive bidding program similar to Medicare's Competitive Bidding Program or had revised its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates. This would have saved the Medi-Cal program \$3,878,852, or 32 percent of the total payments for the three durable medical equipment (DME) product types reviewed.

**Recommendation:** The OIG recommends that the State agency establish a competitive bidding program similar to Medicare's Competitive Bidding Program for reimbursement of standard power wheelchairs, oxygen systems, and oxygen concentrators or revise its reimbursement methodology to obtain pricing similar to the California Medicare CBA payment rates for these product types, which could have resulted in cost savings of approximately \$3.9 million for the 1 – year period we reviewed.

**Department of Health Care Services (DHCS) Response:** DHCS recognizes the intent of a competitive bidding program (CBP) for certain (DME) services as a cost savings strategy, but does not agree with the estimated savings. The estimated \$3.9 million reflects a statewide savings, but was limited to certain Competitive Bidding Areas (CBA). High cost areas, such as San Francisco, San Mateo and Santa Clara are not reflected because the savings estimate provided in the draft report is based on CBA projections for Riverside, San Bernardino and Ontario then compared to select Medi-Cal DME codes and rates. DHCS believes that the savings estimate may be overstated because there are varied economic regions throughout the state which are not taken into account in the report. DHCS also believes that the inclusion of bids from higher cost areas would more accurately reflect a reasonable rate; it is likely that the savings amount would decrease with the inclusion of the higher cost areas.

DHCS notes that rate methodology changes or updates that reduce provider rates could cause access to care issues for beneficiaries. If an access to care barrier is proven as a result, DHCS would be required to develop a State Plan Amendment requesting an exemption of the rate reduction for the specified DME providers. This could negate savings achieved from the change on a statewide basis or in certain geographic areas, depending on where the access issues materialize, if approved by the federal government.

Implementing a CBP methodology for DME rate-setting would require significant workload and a lengthy competitive bidding process. Any redirection of staff will adversely impact critical projects, which could negatively impact the state General Fund. Obtaining positions to conduct a CBP would be very difficult in the current fiscal environment. In addition, savings included in the draft report did not take into account the cost associated with developing and implementing a CBP under Medi-Cal. It would be more cost effective if DHCS aligns DME rates, for DME that have established rates, to 80 percent of Medicare's rate on an annual basis as required in Welfare and Institutions Codes section 14105.48, to obtain pricing similar to the California Medicare CBA payment rates.

**DHCS Corrective Action Plan:** DHCS will update its DME Medi-Cal rates in 2014 so rates are aligned to 80 percent of the current Medicare rates which may provide savings to the state General Fund and pricing similar to the CA Medicare CBA payment rates. As resources permit, DHCS will also review a CBP to determine the benefits and costs associated with adopting this reimbursement methodology in the future.

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