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OFFICE OF INSPECTOR GENERAL

STATE MEDICAID PROGRAM EFFORTS TO CONTROL COSTS FOR DISPOSABLE INCONTINENCE SUPPLIES

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EXECUTIVE SUMMARY: STATE MEDICAID PROGRAM EFFORTS TO CONTROL COSTS FOR DISPOSABLE INCONTINENCE SUPPLIES
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WHY WE DID THIS STUDY

In 2012, fee-for-service State Medicaid programs reported spending $266 million on nine specific types of disposable incontinence supplies (e.g., diapers). Many State legislatures have passed legislation directing States to seek opportunities to reduce the costs of health care goods—such as incontinence supplies—and services. Since 2009, the Office of Inspector General has identified ensuring the integrity of Federal health care program payment methodologies as a top management challenge for the Department of Health and Human Services. In addition, there have been a number of fraud cases involving disposable incontinence supplies.

HOW WE DID THIS STUDY

From each State Medicaid program (50 States and the District of Columbia), we collected 2012 data on the claim volumes and fee-schedule reimbursement rates for nine Healthcare Common Procedure Coding System codes for commonly used disposable incontinence supplies. We conducted a survey of each State Medicaid program to determine how many States implemented or attempted to implement cost-control measures, such as competitive bidding, for such supplies. We calculated the amount that Medicaid programs would save if the median competitive bidding rate were used. For the five States that had implemented competitive bidding programs, we conducted structured telephone interviews with State Medicaid program staff to obtain further information about these programs.

WHAT WE FOUND

All State Medicaid programs implemented cost-control measures—such as quantity limitations or reductions in fee-schedule amounts—for incontinence supplies. Five State Medicaid programs implemented competitive bidding programs. These programs reported savings of up to 50 percent. If State Medicaid programs had paid suppliers at the median competitive bidding rate, they could have paid 23 percent less, saving $62 million. Other positive outcomes resulted from competitive bidding, such as increased beneficiary access to supplies, increased product quality, and State Medicaid program control of providing supplies. However, States reported encountering initial challenges with their competitive bidding programs, and six States attempted to establish competitive bidding but did not fully implement it.

WHAT WE RECOMMEND

We recommend that the Centers for Medicare & Medicaid Services (CMS) encourage State Medicaid programs to seek further cost savings for disposable incontinence supplies. CMS concurred with our recommendation.

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OBJECTIVES

To determine:

1. the extent to which State Medicaid programs have implemented measures to control costs for incontinence supplies,
2. the potential savings in 2012 for State Medicaid programs if the median competitive bidding rate had been used, and
3. the outcomes of cost-control measures for incontinence supplies, as well as approaches implemented to reduce initial challenges.

BACKGROUND

In 2012, fee-for-service State Medicaid programs reported spending $266 million on nine specific types of disposable incontinence supplies (e.g., diapers). Many State legislatures have passed legislation directing States to seek opportunities to reduce the costs of health care goods and services through contracting processes such as competitive bidding. To control costs, other States have reduced either the reimbursement rates or the maximum quantities of incontinence supplies allowed.

Since 2009, the Office of Inspector General (OIG) has identified ensuring the integrity of Federal health care program payment methodologies as a top management challenge for the Department of Health and Human Services.[1] In addition, there have been a number of fraud cases involving disposable incontinence supplies. In 2013, a Maryland supplier pleaded guilty to submitting and collecting claims for reimbursement for over $200,000 of incontinence supplies that were never delivered.[2] In 2012, a supplier pleaded guilty to Federal charges stemming from the submission of nearly $45,000 in claims to the District of Columbia Medicaid program for diapers, disposable underpads, and gloves that were never actually provided.[3]

[1] OIG, *Top Management and Performance Challenges*. Accessed at http://oig.hhs.gov/reports-and-publications/top-challenges/2013/ on May 8, 2013.

[2] U.S. Attorney's Office, *Maryland Business Owner Pleads Guilty to Health Care Fraud In Scheme Involving More Than $200,000 in False Medicaid Claims,* April 23, 2013. Accessed at http://www.justice.gov/usao/dc/news/2013/apr/13-141.html on July 3, 2013.

[3] U.S. Attorney's Office, *Maryland Man Pleads Guilty to Medicaid Fraud Involving Power Wheelchairs and Incontinence Supplies*, October 11, 2012. Accessed at http://www.fbi.gov/washingtondc/press-releases/2012/maryland-man-pleads-guilty-to-medicaid-fraud-involving-power-wheelchairs-and-incontinence-supplies on November 1, 2012.

Medicaid Coverage of Disposable Incontinence Supplies

A State Medicaid plan must include home health services for individuals who are entitled to nursing facility services.[4] However, States may not make the need for institutional care a condition for receiving home health services.[5] Federal regulation states that medical supplies, equipment, and appliances suitable for use in the home are required home health services.[6] Disposable incontinence supplies are considered medical supplies. Table 1 lists Healthcare Common Procedure Coding System (HCPCS) codes and corresponding descriptions of disposable incontinence supplies.

Table 1: Disposable Incontinence Supplies

HCPCS Code	Description
T4521	Adult-sized disposable incontinence product, brief/diaper, small
T4522	Adult sized-disposable incontinence product, brief/diaper, medium
T4523	Adult sized-disposable incontinence product, brief/diaper, large
T4524	Adult sized disposable-incontinence product, brief/diaper, extra large
T4529	Pediatric-sized disposable incontinence product, brief/diaper, small/medium
T4530	Pediatric-sized disposable incontinence product, brief/diaper, large
T4533	Youth-sized disposable incontinence product/brief/diaper
T4535	Disposable liner/shield/guard/pad/undergarment, for incontinence
T4543	Disposable incontinence product, brief/diaper, bariatric

Source: Carol J. Buck, *2013 HCPCS Level II,* 2013, pp. 339–340.

Although State standards for the coverage of disposable incontinence supplies may differ, States require that the beneficiary's physician prescribe supplies for a medical condition. Physicians' prescriptions indicate the quantity of supplies needed on a periodic basis, which is typically monthly.

Medicaid Payments for Disposable Incontinence Supplies

States have the option to provide Medicaid services to eligible beneficiaries on a fee-for-service basis or through managed-care arrangements. In a fee-for-service model, beneficiaries can receive their supplies from any participating supplier who submits claims to the State for reimbursement. Many fee-for-service State Medicaid programs set a maximum reimbursement rate for incontinence supplies using a fee

[4] Social Security Act (SSA) § 1902(a)(10)(D), 42 U.S.C. § 1396a(a)(10)(D).
[5] 42 CFR § 441.15(c).
[6] 42 CFR § 440.70(b)(3).

schedule; a few programs reimburse suppliers based on a percentage of cost or customary charges. In a managed-care model, State Medicaid programs pay managed-care plans a fixed rate per Medicaid beneficiary in exchange for services included in the plan and do not reimburse separately for incontinence supplies.

Cost-Control Measures for Incontinence Supplies

The SSA requires States to "assure that payments are consistent with efficiency, economy, and quality of care."[7]

Medicaid Cost-Control Measures. State Medicaid programs may use a variety of methods to control expenditures for incontinence supplies. First, States may impose limits on the quantity of supplies allowed per month. Secondly, State Medicaid programs may reduce fee-schedule rates to control expenditures for incontinence supplies. This measure reduces the maximum reimbursement rate paid for supplies, but maintains beneficiaries' access to any supplier willing to provide supplies at the stated rates.

Lastly, State Medicaid programs may seek to lower costs for incontinence supplies by implementing a competitive bidding process. In competitive bidding, State Medicaid programs solicit bids from vendors willing to provide supplies to Medicaid beneficiaries. Vendors submit bids representing the lowest reimbursement that they will accept. State Medicaid programs evaluate the bids and determine the winning suppliers. The winning suppliers' bid prices become the State's fee-schedule rates. Beneficiaries must receive their supplies from the winning suppliers.

Federal regulations require State Medicaid programs to make assurances, in the form of a certification to the Centers for Medicare & Medicaid Services (CMS), that adequate supplies are available to beneficiaries under the competitive bidding process.[8] State Medicaid programs may not implement competitive bidding until CMS makes a determination and issues a certification to the State.[9]

[7] SSA § 1902(a)(30)(A), 42 U.S.C. § 1396a(a)(30)(A).
[8] SSA § 1915(a)(1)(B) and 42 CFR § 431.54(d).
[9] 42 CFR § 431.51(d)(2).

Competitive Bidding in Medicare. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required that Medicare replace the fee-schedule payment methodology for certain durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS) with a competitive bid process.[10, 11] In April 2012, CMS released the results from the first year of the competitive bidding program, showing that the program had reduced DMEPOS expenditures by 42 percent. CMS found that real-time claims monitoring and subsequent followup with beneficiaries indicated that access to necessary and appropriate items and supplies was maintained.[12]

Related Reports

In 2011, GAO released a report exploring the issues that CMS could face if it purchased DME directly from manufacturers.[13] The report also described how the Department of Veterans Affairs and certain State Medicaid programs reduced their spending on a variety of types of DME through competitive bidding. The report described the implications of using these purchasing models in Medicare.

METHODOLOGY

Scope

This evaluation focuses on State Medicaid programs' use of cost-control measures for incontinence supplies and the outcomes achieved from those measures. We included data from the 49 State Medicaid programs that paid claims for incontinence supplies on a fee-for-service basis.[14] To calculate potential savings, we compared each State's actual expenditures for 2012 to what would have been paid using the median rate of the States that implemented competitive bidding. We did not determine the validity of the diagnoses that led to the prescription for incontinence supplies or the medical necessity of incontinence supplies for the beneficiary.

[10] Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. 108-173, § 302(b), 117 Stat. 2066, 2224–29 (Dec. 8, 2003).

[11] We note that Medicare does not consider disposable incontinence supplies to be durable medical equipment (DME); therefore, these supplies are not included in Medicare's competitive bidding program.

[12] CMS, *Competitive Bidding Update—One Year Implementation Update*, p. 5, April 17, 2012. Accessed at http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/DMEPOSCompetitiveBid/Downloads/Competitive-Bidding-Update-One-Year-Implementation.pdf on April 27, 2012.

[13] GAO, *Medicare: Issues for Manufacturer-Level Competitive Bidding for Durable Medical Equipment*, GAO-11-337R, May 31, 2011.

[14] South Dakota and Tennessee reported that they did not pay fee-for-service claims for incontinence supplies.

Data Collection

Request for Data. From each State Medicaid program, we collected summary information on the 2012 claim volumes (from State Medicaid management information systems) and fee-schedule reimbursement rates for nine HCPCS codes for commonly used disposable incontinence supplies. We received responses from all 51 State Medicaid programs; however, we excluded 2 State Medicaid programs—Tennessee and South Dakota—from our analysis. The Tennessee State Medicaid program responded that because 100 percent of its beneficiaries were enrolled in managed-care plans, it did not pay for incontinence supplies on a fee-for-service basis. The South Dakota State Medicaid program responded that it did not pay for incontinence supplies on a fee-for-service basis in 2012. We note that South Dakota provides incontinence supplies through a waiver program, the Assistive Daily Living Services Program.

Surveys. We surveyed each of the State Medicaid programs (50 States and the District of Columbia) to determine how many States implemented or attempted to implement cost-control measures for incontinence supplies. We asked questions about the cost-control measures in effect during 2012.

Telephone Interviews of States with Competitive Bidding Programs. For the five State Medicaid programs that implemented competitive bidding (Indiana, Maine, Michigan, New Hampshire, and Wisconsin), we conducted structured telephone interviews with State Medicaid program staff to gather more in-depth information about their experiences. We asked questions about:

- practices that led to successful implementation and any barriers that needed to be overcome,
- the cost savings achieved and other positive outcomes that resulted, and
- initial challenges and approaches that State Medicaid programs used to reduce these challenges.

Analysis

Using each State Medicaid program's summary information on claim volumes for each HCPCS code, we calculated the amount that Medicaid programs would have saved if the median competitive bidding rate were used. For any State Medicaid program that did not report a specific

fee-schedule rate for a given type of supply, we imputed a rate by dividing total expenditures for the supply by the total quantity reimbursed.[15]

We analyzed the survey responses to determine the extent to which State Medicaid programs implemented cost-control measures for incontinence supplies and the types of cost-control measures. We analyzed the telephone interview responses to describe States' competitive bidding programs, including initial challenges in implementation and outcomes.

Limitations

We conducted telephone interviews and requested documentation of savings from each of the five State Medicaid programs that implemented competitive bidding. However, only Michigan, New Hampshire, and Wisconsin provided savings documentation. Indiana officials reported that they could not separate savings for incontinence supplies from savings for other items in its competitive bidding program. Maine officials reported that they did not track savings associated with the State's competitive bidding program.

Standards

This study was conducted in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

[15] We imputed rates for 35 State/HCPCS code combinations out of a total of 441 rate comparisons, or 8 percent. All State Medicaid programs that implemented competitive bidding reported specific fee-schedule rates; therefore, we did not need to impute rates for these States.

FINDINGS

All State Medicaid programs implemented cost-control measures for incontinence supplies

As of 2012, all State Medicaid programs had implemented one or more cost-control measures for incontinence supplies—all State Medicaid programs implemented quantity limitations, 21 States reduced their fee-schedule amounts, and five States implemented competitive bidding programs.

All State Medicaid programs implemented quantity limitations

Most often, States established maximum monthly quantity limits for each HCPCS code. For example, for each of the nine types of supplies reviewed, the Idaho Medicaid program set a limit of 240 units per month and the Alaska Medicaid program set a limit of 500 units per month. Some States had differing limits for the same HCPCS code depending on the age of the beneficiary. For example, in Maryland, the monthly limit for small adult diapers (T4521) was 240 units for beneficiaries aged 3 to 15 and 180 units for beneficiaries aged 16 and older.

Less commonly, States implemented quantity limitations by establishing maximum dollar amounts for supplies per month. Two States—Arkansas and Kansas—used this method. The Arkansas Medicaid program set a monthly limit of $130 for incontinence supplies across all HCPCS codes. The Kansas Medicaid program set limits both on quantity and on dollar amount; it set a limit of six units per day, not to exceed $150 per month. Regardless of the type of quantity limitation, State Medicaid programs may—on the basis of an individual beneficiary's medical necessity—appropriately authorize a quantity of incontinence supplies exceeding the established limit.

Twenty-one State Medicaid programs reduced fee-schedule reimbursement amounts

Twenty-one of forty-nine State Medicaid programs reported reducing fee-schedule reimbursement amounts for incontinence supplies between 2000 and 2012. For example, in March 2011, the Connecticut Medicaid program reviewed fee-schedule rates of nearby States and reduced its rates to be consistent with those States. The Louisiana Medicaid program reduced its fee-schedule reimbursement amounts twice—once in January 2010 and again in February 2012. Other State Medicaid programs reduced their fee-schedule amounts by a certain percentage across HCPCS codes.

The Nebraska Medicaid program reduced its fee-schedule amounts by 2.5 percent in July 2011, and the Alabama Medicaid program reduced its fee-schedule amounts by 10 percent in June 2012.

Five State Medicaid programs implemented competitive bidding programs

As of 2012, five State Medicaid programs had implemented competitive bidding programs for incontinence supplies: Indiana, Maine, Michigan, New Hampshire, and Wisconsin. Officials from these States reported that the reasons for seeking competitive bidding programs included Statewide initiatives directing innovative purchasing methods, saving money on incontinence supplies, and building on successful competitive bidding for other types of DME (e.g., eyeglass frames and lenses) that resulted in cost savings for their Medicaid programs.

States Reported a Variety of Program Features. State Medicaid programs obtained bids for incontinence supplies in two ways. Four programs—Indiana, Maine, Michigan, and New Hampshire—developed Requests for Proposals to solicit bids from interested vendors. In contrast, the Wisconsin State Medicaid program coordinated with the Michigan State Medicaid program to add the Wisconsin program to Michigan's existing vendor contract. The Maine, Michigan, New Hampshire, and Wisconsin State Medicaid programs awarded contracts to one vendor per State. Indiana initially awarded contracts to three vendors, but subsequently ended its contract with one of the three.

Beneficiaries obtained incontinence supplies through mail delivery or local suppliers. For three State Medicaid programs (Indiana, Michigan, and Wisconsin), beneficiaries ordered directly from vendors and received their supplies through mail delivery. In Maine and New Hampshire, vendors shipped supplies directly to beneficiaries, or beneficiaries received them from local suppliers (i.e., stores located near beneficiaries' homes). In such cases, local suppliers purchased supplies from their State's contracted vendor at guaranteed rates and then submitted claims to receive reimbursement from their State's Medicaid program. Table 2 shows selected features of each State's competitive bidding program.

Table 2: Selected Features of Competitive Bidding Programs

State	Year Contract First Awarded	Number of Vendor Awards in 2012	Mail Delivery	Distribution Through Local Suppliers	Contracting Used for DME Other Than Incontinence Supplies
IN	2008	2	Yes	No	Yes
ME	2003	1	Yes	Yes	Yes
MI	1997	1	Yes	No	Yes
NH	2009	1	Yes	Yes	Yes
WI	2009	1	Yes	No	Yes

Source: OIG analysis of structured telephone interviews, 2013.

States Reported Approaches That Assisted With Successful Implementation of Competitive Bidding. Officials from each of the five State Medicaid programs that implemented competitive bidding told us that engaging suppliers and stakeholder groups throughout the process was helpful to successful implementation. Prior to making awards, State officials stressed the importance of providing suppliers with clear information about the competitive bidding process, such as the specific HCPCS codes included in the contract and how shipping costs would be handled. State officials also found it helpful to continue engagement after bids were awarded. For example, the New Hampshire Medicaid program holds meetings with its supplier association at least annually. New Hampshire also surveyed beneficiaries at the end of the first year of competitive bidding to gauge their satisfaction with the quality of supplies they received.

States Reported Savings of Up to 50 Percent. Michigan reported that its contracted reimbursement rates represented discounts of approximately 50 percent from its previous fee schedules, with an estimated 1-year savings of $16 million. New Hampshire's contracted reimbursement rates were 47 percent less than those prior to competitive bidding, with savings of over $1 million in the first 16 months of the program. Wisconsin reduced monthly expenditures per beneficiary by an average of 15 percent from FY 2010 to FY 2012.

State Medicaid programs could realize significant cost savings for incontinence supplies

Although all States implemented cost-control measures for incontinence supplies, additional cost savings may be possible.

For eight of the nine supplies reviewed, median competitive bidding rates were lower than rates in States without competitive bidding programs

Overall, there was less variability in rates among States that implemented competitive bidding than among States that had not. For eight of the nine supplies we reviewed, Kentucky had the highest rates among States without competitive bidding programs. Table 3 shows the range and median rates for the nine supplies reviewed for States that implemented competitive bidding and States that did not.

Table 3: Range and Median of State Medicaid Program Payment Rates

HCPCS Code	Description	Competitive Bidding Rates		Rates in States Without Competitive Bidding	
		Range	Median	Range	Median
T4521	Adult-sized disposable incontinence product, brief/diaper, small	$0.32–$0.53	$0.40	$0.41–*$1.69	$0.62
T4522	Adult-sized disposable incontinence product, brief/diaper, medium	$0.32–$0.53	$0.41	$0.46–*$1.63	$0.66
T4523	Adult-sized disposable incontinence product, brief/diaper, large	$0.39–$0.65	$0.53	$0.50–*$2.06	$0.80
T4524	Adult-sized disposable incontinence product, brief/diaper, extra large	$0.46–$1.05	$0.65	$0.50–*$2.68	$0.90
T4529	Pediatric-sized disposable incontinence product, brief/diaper, small/medium	$0.24–$0.52	$0.25	$0.25–*$1.25	$0.49
T4530	Pediatric-sized disposable incontinence product, brief/diaper, large	$0.36–$0.53	$0.39	$0.36–*$1.86	$0.55
T4533	Youth-sized disposable incontinence product/brief/diaper	$0.33–$0.53	$0.39	$0.39–*$1.84	$0.62
T4535	Disposable liner/shield/guard/pad/ undergarment, for incontinence	$0.18–$0.50	$0.29	$0.15–*$1.26	$0.43
T4543	Disposable incontinence product, brief/diaper, bariatric	$0.70–$1.89	$1.50	$0.41–$4.32	$1.44

* Indicates imputed rate.

Source: OIG analysis of State Medicaid program survey responses, 2013.

The State Medicaid programs' 2012 rates for each of the nine types of supplies reviewed can be found in Appendix A and Appendix B.

State Medicaid programs could have saved $62 million in 2012 using the median competitive bidding rate

State Medicaid programs paid $266 million for nine types of incontinence supplies in 2012. If State Medicaid programs had paid suppliers at the median rate among the five States that implemented competitive bidding, they could have paid 23 percent less, saving $62 million. By HCPCS code, potential savings ranged from $2 million to $15 million. For example, using the median competitive bidding rate for T4522 across States that paid more than this rate in 2012 would have yielded a savings of $12 million, or 27 percent. By State, potential savings ranged from less than $1,000 (Hawaii) to $7.5 million (California). Six States accounted for 50 percent of the potential savings (California, Illinois, New York, North Carolina, Pennsylvania, and Virginia).

State Medicaid programs reported both positive outcomes and initial challenges with respect to competitive bidding

Although the primary motivation to implement competitive bidding is to reduce expenditures, States reported a variety of other positive outcomes. At the same time, they experienced initial challenges when implementing their competitive bidding programs. Finally, six State Medicaid programs attempted to establish competitive bidding for incontinence supplies, but did not ultimately implement this cost-control measure.

State Medicaid programs reported increased beneficiary access, product quality, and program control

State officials reported that their competitive bidding programs resulted not only in cost savings, but also in a variety of other positive outcomes. Officials from Maine and Michigan noted that having supplies delivered to beneficiaries' residences increased access, particularly for beneficiaries with transportation challenges. Wisconsin officials similarly noted that mail delivery increases the reliability of access to supplies. In New Hampshire, competitive bidding increased the number and types of supplies available to beneficiaries.

Secondly, officials from four States told us that having one supplier ensured consistency of product quality. These officials explained that, prior to competitive bidding, suppliers provided products of varying quality (e.g., absorbency and performance). In Wisconsin, there was an increase in the quality of supplies that the contracted vendor was able to offer in comparison to suppliers' offerings prior to competitive bidding. Wisconsin officials stated that prior to competitive bidding, some local

suppliers would not accept the State's fee-schedule rates for higher quality products.

Lastly, State officials cited better overall control of providing incontinence supplies, such as reduced opportunity for beneficiaries to fraudulently use multiple suppliers to obtain an excess of supplies, fewer requests for prior authorizations, and centralized customer service for complaint resolution. Wisconsin officials noted that complaints are now resolved in a more streamlined manner than they were prior to competitive bidding.

State Medicaid programs reported encountering initial challenges with their competitive bidding programs

Officials from three State Medicaid programs reported complaints from beneficiaries about the specific brand or quality of supplies that they received following the implementation of competitive bidding. All States included more than one brand of product for each supply type, so that beneficiaries could choose another brand if one did not meet their needs. In addition, for brands not offered with the contract, State Medicaid programs allowed prior authorization if a physician provided justification of the medical necessity for that brand.

One State reported that having to transfer beneficiary information when the State switched from one vendor to another created a challenge to administering the State's competitive bidding program. Michigan awarded a competitive bidding contract to a new vendor after the initial vendor's contract expired. State officials mentioned the need to ensure coordination of the transfer of beneficiary information when ending a contract with one vendor and awarding a new contract to a different vendor.

Six State Medicaid programs attempted to establish competitive bidding programs but did not implement them

Another six State Medicaid programs attempted to establish competitive bidding programs, but did not implement them because of factors such as supplier opposition.[16] As a result, each of the six States implemented cost-control measures other than competitive bidding. Three States reduced fee schedules, two States implemented quantity limitations, and one State implemented both. Like the States that successfully implemented competitive bidding, three States reported that engaging suppliers and stakeholders was helpful to implement other measures that would meet the States' cost-saving goals. For example, the Texas

[16] The six State Medicaid programs were Florida, North Carolina, Ohio, South Carolina, Texas, and Washington.

Medicaid program held a meeting with suppliers to discuss the reimbursement rate for each HCPCS code on the basis of supplier cost. As a result, the Texas Medicaid program reduced its fee schedules by an average of 8 percent.

CONCLUSION AND RECOMMENDATION

All State Medicaid programs implemented cost-control measures such as quantity limitations or reductions of fee-schedule amounts for incontinence supplies. Five State Medicaid programs implemented competitive bidding programs, reporting savings of up to 50 percent. States reported other positive outcomes resulting from competitive bidding, such as increased beneficiary access to supplies, increased product quality, and State Medicaid program control of providing supplies. A few States experienced initial challenges when implementing competitive bidding and reported ways to reduce or alleviate these challenges.

Cost savings will become increasingly important as the Medicaid population expands with the implementation of the Affordable Care Act. State Medicaid programs paid $266 million for nine types of incontinence supplies in 2012. If State Medicaid programs had paid suppliers at the median competitive bidding rate, they could have paid 23 percent less, saving $62 million.

We recommend that CMS:

Encourage State Medicaid programs to seek further cost savings for disposable incontinence supplies

CMS could accomplish this by sharing information from State Medicaid programs that have reduced fee-schedule amounts or implemented competitive bidding programs with State Medicaid programs that have not. We recognize that not all State Medicaid programs have the level of incontinence-supply expenditures to warrant their own competitive bidding programs. State Medicaid programs may be able to obtain lower rates for incontinence supplies by joining an existing contract of another State Medicaid program or meeting with suppliers to negotiate lower fee-schedule rates.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

CMS concurred with OIG's recommendation and noted that it is available to provide technical assistance to States at their request. CMS further stated that on August 2, 2013, it issued an Informational Bulletin to State Medicaid programs and other interested parties about Medicare's Competitive Bidding Program.

The full text of CMS's comments is provided in Appendix C.

APPENDIX A

State Medicaid Program Rates for HCPCS Codes T4521, T4522, T4523, T4524, and T4529

State	HCPCS Code				
	T4521	T4522	T4523	T4524	T4529
Alabama	$0.80	$0.80	$0.80	$1.00	$0.40
Alaska	$0.56	$0.76	$0.91	$1.06	$0.56
Arkansas	$0.58	$0.70	$0.90	$0.93	$0.30/$0.38
California	$0.44	$0.50	$0.66	$0.66	N/A
Connecticut	$0.47	$0.52	$0.70	$0.73	$0.48
Colorado	$0.62	$0.71	$0.85	$0.87	$0.43
Delaware	$0.50	$0.50	$0.74	$0.88	$0.25
District of Columbia	$0.90	$0.90	$0.90	$0.90	$0.90
Florida	$0.63	$0.69	$0.80	$0.90	$0.53
Georgia	N/A	N/A	N/A	N/A	$0.37
Hawaii	$0.62	$0.66	$0.66	$0.69	N/A
Idaho	$0.48	$0.60	$0.72	$0.77	$0.41
Illinois	$0.49	$0.60	$0.67	$0.88	$0.54
Indiana	$0.38/$0.40	$0.33/$0.38	$0.43/$0.47	$0.56/$0.57	$0.24/$0.25
Iowa	$0.77	$0.78	$1.00	$1.11	$0.77
Kansas	$0.70	$0.80	$0.90	$0.90	$0.45
Louisiana	$0.50	$0.60	$0.87	$0.87	$0.50
Maine	$0.36	$0.413	$0.534	$0.647	$0.245
Maryland	$0.66	$0.66	$0.93	$1.04	$0.60
Massachusetts	$0.46	$0.53	$0.71	$0.74	$0.79
Michigan	$0.53	$0.53	$0.65	$1.05	$0.52
Minnesota	$0.63/$0.80	$0.72/$0.94	$0.80/$1.13	$0.92/$1.38	$0.44
Mississippi	$0.55	$0.65	$0.95	$0.95	$0.55
Missouri	$0.50	$0.50	$0.50	$0.50	$0.50
Nebraska	$0.81	$0.88	$0.98	$0.98	$0.75
Nevada	$0.56	$0.60	$0.80	$0.96	$0.43
New Hampshire	$0.32/$0.43	$0.32/$0.47	$0.39/$0.57	$0.46/$0.65	N/A
New Jersey	$0.63	$0.63	$0.63	$0.81	$0.45
New Mexico	$0.65	$0.53	$0.98	$0.98	$0.65
New York	$0.47	$0.51	$0.68	$0.72	$0.30
North Carolina	$0.74	$0.78	$0.86	$0.86	$0.49
Ohio	$0.55	$0.63	$0.71	$0.79	$0.40
Oklahoma	$0.78	$0.85	$0.96	$1.13	N/A

continued on next page

Note: "N/A" indicates that no fee-schedule rate was reported for the item. Seven States—Arizona, Kentucky, Montana, North Dakota, South Dakota, Tennessee, and West Virginia—are not included in the table because these States did not report specific fee-schedule rates for any of the nine types of supplies.

* Some States reported more than one fee-schedule rate for a given item. For these instances, we show the different rates with a slash (/) in between.

State Medicaid Program Rates for HCPCS Codes T4521, T4522, T4523, T4524, and T4529 (Continued)

State	HCPCS Code				
	T4521	T4522	T4523	T4524	T4529
Oregon	$0.48	$0.64	$0.71	$0.76	$0.48
Pennsylvania	$0.63	$0.65	$0.72	$0.72	$0.55
Rhode Island	$0.95	$0.95	$0.95	$0.95	$0.95
South Carolina	$0.47	$0.46	$0.56	$0.73	$0.45
Texas	$0.53	$0.56	$0.60	$0.75	$0.38
Utah	$0.62	$0.71	$0.83	$0.96	$0.36
Vermont	$0.67	$0.67	$0.67	$1.07	$0.49
Virginia	$0.41/$0.51	$0.50/$0.65	$0.88/$0.94	$1.13	$0.51
Washington	$0.44	$0.54	$0.65	$0.78	$0.41
Wisconsin	$0.43	$0.44	$0.58	$0.65	$0.40
Wyoming	$0.59	$0.68	$0.80	$0.92	$0.60

Source: OIG analysis of Medicaid program survey responses, 2013.

APPENDIX B

State Medicaid Program Rates for HCPCS Codes T4530, T4533, T4535, and T4543

State	HCPCS Code			
	T4530	T4533	T4535	T4543
Alabama	$0.50	N/A	N/A	$2.00
Alaska	$0.59	$0.60	$0.43	$4.32
Arkansas	$0.58	$0.60	$0.43/$0.69	$1.07
California	N/A	$0.42	$0.24/$0.36/$0.43/$0.48	N/A
Connecticut	$0.60	$0.43	$0.34	$1.30
Colorado	$0.43	$0.55	$0.41	$0.41
Delaware	$0.37	$0.47	$0.33	N/A
District of Columbia	$0.90	N/A	$0.50	$0.90
Florida	$0.58	$0.65	$0.44	$1.52
Georgia	$0.37	$0.64	N/A	N/A
Hawaii	N/A	N/A	N/A	N/A
Idaho	$0.47	$0.48	$0.34	$0.76
Illinois	$0.67	$0.49	$0.43	$1.50
Indiana	$0.36/$0.37	$0.35/$0.37	$0.20/$0.22	$1.50/$1.75
Iowa	$0.87	$0.87	$0.40	N/A
Kansas	$0.48	$0.72	$0.15	N/A
Louisiana	$0.50	$0.55	N/A	$1.46
Maine	$0.385	$0.389	$0.497	$0.70
Maryland	$0.60	$0.64	$0.39	N/A
Massachusetts	$0.83	$0.46	$0.46	N/A
Michigan	$0.53	$0.53	$0.34	$1.72
Minnesota	$0.50	$0.69/$1.09	$0.41/$0.69	$2.34
Mississippi	$0.55	$0.60	N/A	N/A
Missouri	$0.50	$0.50	N/A	$0.50
Nebraska	$0.81	$0.81	$0.44	$1.01
Nevada	$0.47	$0.56	$0.37	$1.95
New Hampshire	N/A	$0.33/$0.44	$0.18/$0.32	$0.71/$0.94
New Jersey	$0.45	$0.63	N/A	N/A
New Mexico	$0.45	$0.98	N/A	N/A
New York	$0.36	$0.39	$0.28	$1.38
North Carolina	$0.55	$0.67	$0.34	$1.29
Ohio	$0.40	$0.46	$0.40	$2.12
Oklahoma	N/A	N/A	$0.59	N/A

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Note: "N/A" indicates that no fee-schedule rate was reported for the item. Seven States—Arizona, Kentucky, Montana, North Dakota, South Dakota, Tennessee, and West Virginia—are not included in the table because these States did not report specific fee-schedule rates for any of the nine types of supplies.

* Some States reported more than one fee-schedule rate for a given item. For these instances, we show the different rates with a slash (/) in between.

State Medicaid Program Rates for HCPCS Codes T4530, T4533, T4535, and T4543 (Continued)

State	HCPCS Code			
	T4530	T4533	T4535	T4543
Oregon	$0.48	$0.48	$0.64	N/A
Pennsylvania	$0.55	$0.65	$0.76	$1.62
Rhode Island	$0.95	$0.95	$0.77	$2.85
South Carolina	$0.45	$0.47	$0.21	$1.27
Texas	$0.48	$0.53	$0.27	$0.94
Utah	$0.52	$0.71	$0.44	$2.50
Vermont	$0.43	$0.67	$0.43	$1.44
Virginia	$0.59	N/A	$0.34	N/A
Washington	$0.43	$0.44	$0.32	$2.21
Wisconsin	$0.44	$0.46	$0.29	$1.89
Wyoming	$0.85	$1.07	$0.75	N/A

Source: OIG analysis of Medicaid program survey responses, 2013.

APPENDIX C

Agency Comments

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator
Washington, DC 20201

DATE: NOV 19 2013

TO: David R. Levinson
Inspector General

FROM: Marilyn Tavenner /S/
Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "State Medicaid Program Efforts to Control Costs for Disposable Incontinence Supplies (OEI-07-12-00710)

The Centers for Medicare & Medicaid Services (CMS) appreciates the opportunity to review and comment on the above-referenced draft report. The purpose of this report was to survey states to determine how many states implemented or attempted to implement cost-control measures, such as competitive bidding, for incontinence supplies.

The OIG found that all state Medicaid programs implemented cost-control measures such as quantity limitations or fee-schedule reductions for incontinence supplies. Additionally, the report finds that five state Medicaid programs implemented competitive bidding programs with the result of achieving significant savings.

OIG Recommendation

The OIG recommends that CMS encourage state Medicaid programs to seek further cost savings for disposable incontinence supplies.

CMS Response

We concur with OIG's recommendation and note that we are available to provide technical assistance to states, at their request. Additionally, on August 2, 2013, CMS issued an Informational Bulletin entitled *Medicare Competitive Bidding Program for Durable Medical Equipment and Coordination of Benefits for Beneficiaries Eligible for Medicare and Medicaid (Dual Eligibles)*, which provided information to state Medicaid agencies and other interested parties about Medicare's Competitive Bidding Program.

The CMS thanks OIG for their continued support in reviewing states' efforts to control costs for disposable incontinence supplies.

ACKNOWLEDGMENTS

This report was prepared under the direction of Brian T. Whitley, Regional Inspector General in the Kansas City regional office.

Tricia Fields served as the team leader for this study. Other Office of Evaluation and Inspections staff from the Kansas City regional office who conducted the study include Jordan Clementi and Brian T. Pattison. Central office staff who provided support include Clarence Arnold, Kevin Manley, and Christine Moritz.

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