

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ILLINOIS SIGNIFICANTLY REDUCED
MEDICAID COSTS FOR
HOME BLOOD-GLUCOSE TEST STRIPS
BUT COULD ACHIEVE
ADDITIONAL REDUCTIONS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Deputy Inspector General**

**May 2013
A-05-12-00009**

Office of Inspector General

<https://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

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

State Medicaid agencies may obtain a waiver from CMS to establish special procedures for the purchase of medical devices, including home blood-glucose test strips (test strip). A number of States have established arrangements in which manufacturers of test strips agree to provide a rebate to States for each of the manufacturers' products dispensed to Medicaid recipients and billed to State Medicaid agencies. The Indiana Medicaid program obtained a waiver from CMS on December 1, 2010, to implement a selective contracting program for test strips and established rebate contracts with two manufacturers. The Illinois Department of Healthcare and Family Services' (State agency) State plan allows for the negotiation of rebates with test strip manufacturers.

The State agency solicited proposals for rebates from manufacturers of test strips. The State agency awarded contracts to four manufacturers on the basis of a clinical review of the product and a financial analysis of the rebate amount. Medicaid beneficiaries could obtain test strips from providers enrolled in the Illinois Medicaid program. The beneficiaries could also purchase test strips not covered by one of the rebate agreements but only after obtaining a State agency prior authorization based on medical necessity. Illinois' manufacturer rebate program began operating in June 2004.

OBJECTIVE

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

SUMMARY OF FINDINGS

Through its manufacturer rebate program, the Illinois Medicaid program reduced the net cost of test strips purchased during State fiscal year (SFY) 2011. The net cost of test strips obtained through Illinois' manufacturer rebate program was significantly lower than the Illinois Medicaid average reimbursement rate for test strips. The State agency's use of manufacturer rebates led to reduced costs that provided mutual benefits to the State and Federal Governments, while maintaining access to test strips for Illinois Medicaid beneficiaries.

However, we determined that the Illinois average Medicaid provider reimbursement rate for test strips was significantly greater than the corresponding Illinois Medicare rate. The higher provider reimbursement rates in Illinois may have limited the amount of cost-savings the State

could achieve with its rebate program. The manufacturer rebate, which is not based on the Illinois reimbursement rate for test strips, offsets only a portion of the significantly greater provider reimbursement rate. The net Medicaid payment rates Illinois obtained through manufacturer rebates were significantly greater than the corresponding Indiana Medicaid rate. By reducing its provider reimbursement rates, Illinois could further lower the net cost of test strips. If it had used this approach, which reflects the Indiana Medicaid program's experience, the Illinois Medicaid program could have achieved additional savings of approximately \$8.5 million for SFY 2011.

RECOMMENDATION

We recommend the State agency lower the net cost of test strips through changes to provider reimbursement rates, which could have resulted in an additional \$8.5 million in savings in SFY 2011.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendation.

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INTRODUCTION

BACKGROUND

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

Federal Requirements

Pursuant to section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d), 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.

Illinois Medicaid Manufacturer Rebate Program

State Medicaid agencies may obtain a waiver from CMS to establish special procedures for the purchase of medical devices, including home blood-glucose test strips (test strip). A number of States have established arrangements in which manufacturers of test strips agree to provide a rebate to States for each of the manufacturers' products dispensed to Medicaid recipients and billed to State Medicaid agencies. The Illinois Department of Healthcare and Family Services' (State agency) State plan Appendix to Attachment 3.1-A 12(a) allows for the negotiation of rebates with test strip manufacturers. The negotiated test strip contracts state that all information received or accessed pursuant to the contract is confidential unless otherwise designated by the disclosing party.

According to Illinois' *Handbook for Providers of Pharmacy Services*, the State agency allows eligible pharmacy providers (providers) in the Illinois Medicaid program to bill for medical supplies, including test strips. Providers are reimbursed for test strips at the lesser of the provider's usual and customary charge or the average wholesale price plus 25 percent.

The State agency solicited proposals for rebates from manufacturers of test strips. The State agency awarded contracts to four manufacturers on the basis of a clinical review of the product and a financial analysis of the rebate amount. Medicaid beneficiaries could obtain test strips from providers enrolled in the Illinois Medicaid program. The beneficiaries could also purchase test strips not covered by one of the rebate agreements but only after obtaining a State agency prior authorization based on medical necessity. Illinois' manufacturer rebate program began operating in June 2004.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our audit covered Medicaid payments for test strips during State fiscal year (SFY) 2011 (July 1, 2010, through June 30, 2011). We limited our review to paid claims for test strips that were covered by Illinois' rebate agreements, which represented 99 percent of all pharmacy test-strip claims for the audit period.

We limited our internal control review to obtaining an understanding of the State agency's test-strip pricing and reimbursement policies.

Methodology

To accomplish our audit objective, we:

- reviewed applicable Federal and State requirements,
- discussed the manufacturer test-strip rebate program with State agency officials,
- identified test-strip rebate amounts negotiated between the manufacturers and the State agency,
- obtained from the State agency and reviewed a list of Illinois Medicaid payments for test strips associated with claims that had dates of service during SFY 2011,
- confirmed that rebates were collected from manufacturers and that the Federal share of Medicaid assistance was appropriately reduced by that amount,
- determined the approximate amount of cost savings associated with rebates received under the manufacturer rebate program during SFY 2011, and
- determined the approximate amount of additional cost savings possible by applying rebate amounts negotiated by the Indiana Medicaid program to actual State agency purchase quantities.

Although we did not independently verify the reliability of the Medicaid paid claims data, we discussed the data with State agency officials, sorted paid claims to identify variations in payment rates, and compared the total quantity of test strip claims to other State Medicaid programs in making a subjective determination of data reliability. From these efforts, we determined the data obtained from the State agency was sufficiently reliable for this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATION

Through its manufacturer rebate program, the Illinois Medicaid program reduced the net cost¹ of test strips purchased during SFY 2011. The net cost of test strips obtained through Illinois' manufacturer rebate program was significantly lower than the Illinois Medicaid average reimbursement rate for test strips. The State agency's use of manufacturer rebates led to reduced costs that provided mutual benefits to the State and Federal Governments, while maintaining access to test strips for Illinois Medicaid beneficiaries.

However, we determined that the Illinois average Medicaid provider reimbursement rate for test strips was significantly greater than the corresponding Illinois Medicare rate. The higher provider reimbursement rates in Illinois may have limited the amount of cost-savings the State could achieve with its rebate program. The manufacturer rebate, which is not based on the Illinois reimbursement rate for test strips, offsets only a portion of the significantly greater provider reimbursement rate. The net Medicaid payment rates Illinois obtained through manufacturer rebates were significantly greater than the corresponding Indiana Medicaid rate. By reducing its provider reimbursement rates, Illinois could further lower the net cost of test strips. If it had used this approach, which reflects the Indiana Medicaid program's experience, the Illinois Medicaid program could have achieved additional savings of approximately \$8.5 million for SFY 2011.

COST SAVINGS ACHIEVED BY THE ILLINOIS MEDICAID PROGRAM

The net cost for test strips obtained through Illinois' manufacturer rebate program was significantly lower than the Illinois average Medicaid reimbursement rate. We reviewed the total amount the State agency reimbursed providers for test strips and the total amount the State agency received in manufacturer rebates to determine the rebate and savings amounts. We determined that the Illinois Medicaid program achieved a net reduction of Medicaid test strips costs and effectively lowered Medicaid costs for the State and Federal Governments.

INDIANA'S MANUFACTURER REBATE PROGRAM

The Indiana Medicaid program has achieved impressive cost savings for test strips through its manufacturer rebate program. Indiana obtained a waiver from CMS on December 1, 2010, to implement a selective contracting program for test strips under the exemptions permitted in section 1915(a)(1)(B) of the Act and requirements established in 42 CFR § 431.51(d) and

¹ Net cost equals the Medicaid average reimbursement rate (per 50-unit pack) minus the applicable manufacturer rebate amount (per 50-unit pack). Illinois' manufacturer rebate amounts include proprietary information; therefore we have not presented the Illinois net costs after rebate in this report.

42 CFR § 431.54(d). Indiana solicited proposals from manufacturers of test strips through a request for proposal procurement process. Indiana had two separate manufacturer rebate contracts, with rebate amounts that reduced the net costs to \$17.72 and \$14.70, respectively.² The selective contracting program resulted in rebates of approximately 50 percent of the amounts reimbursed to Indiana Medicaid providers.³

POTENTIAL SAVINGS FOR THE ILLINOIS MEDICAID PROGRAM

Significant cost savings can be achieved by Illinois through the reduction of provider reimbursement rates. We determined that the average Medicare reimbursement rate for test strips in Illinois was approximately 40-percent less than the average Medicaid reimbursement rate in Illinois. Illinois' significantly greater provider reimbursement rates create a higher starting cost that may limit the total cost-savings the State can achieve with its manufacturer rebate program. We determined the payment rates that the Indiana Medicaid program obtained through manufacturer rebates were significantly lower than the Illinois average Medicaid reimbursement rate after accounting for rebate amounts.⁴

Using our review of Medicaid paid claims for test strips and the current net Indiana Medicaid payment rate, we determined that the Illinois Medicaid program could have achieved additional savings of \$8,542,819 in SFY 2011 if the State agency had reduced its reimbursement rates to providers to further lower the net cost of test strips and so matched the experience of the Indiana Medicaid program.

RECOMMENDATION

We recommend the State agency lower the net cost of test strips through changes to provider reimbursement rates, which could have resulted in an additional \$8.5 million in savings in SFY 2011.

STATE AGENCY COMMENTS

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

² Indiana's manufacturer rebate amounts do not include proprietary information, so we have included the Indiana net costs after rebate in this report.

³ *Indiana Reduced Medicaid Costs for Home Blood-Glucose Test Strips by Approximately 50 Percent Using Manufacturer Rebates*, June 21, 2012 (A-05-12-00011).

⁴ The reimbursement rates reflect the net cost after the manufacturer rebate payable to the Indiana Medicaid program on covered products dispensed by providers. Indiana had two rebate agreements in calendar year 2011, which provided net unit costs of \$17.72 and \$14.70. We used the higher net unit cost of \$17.72.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



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March 28, 2013

Department of Health and Human Services
Office of Audit Services, Region V
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Chicago, Illinois 60601

Re: Draft Audit Report Number A-05-12-00009

Dear Ms. Fulcher:

Thank you for providing the opportunity to comment on your draft audit report entitled "*The Illinois Manufacturer Rebate Program Significantly Reduced Medicaid Costs for Home Blood-Glucose Test Strips but Could Achieve Additional Reductions*".

The Department concurs with the recommendation. The Department followed pricing methodology for over-the-counter (OTC) products for test strip pricing prior to February 1, 2012. That methodology is established in both administrative rule and state plan. The Department filed, and the Centers for Medicare and Medicaid Services approved, a state plan amendment to allow state maximum allowable cost pricing for OTC products effective February 1, 2012. The Department obtained limited pharmacy acquisition cost information which demonstrated that pharmacies can purchase test strips at, but not below wholesale acquisition cost (WAC). The Department changed the pricing methodology for test strips to WAC effective July 1, 2012.

We appreciate the work completed by your audit team. If you have any questions or comments about our response to the audit, please contact Jamie Nardulli, External Audit Liaison, at (217) 557-0576 or through email at jamie.nardulli@illinois.gov.

Sincerely,

Julie Hamos
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