

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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

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EXECUTIVE SUMMARY

The Minnesota Medicaid program could have saved an estimated \$2.27 million on selected durable medical equipment items by obtaining pricing similar to Medicare's Competitive Bidding Program.

WHY WE DID THIS REVIEW

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

In previous audits, we identified an estimated \$16.5 million that the Illinois and Ohio Medicaid programs could have saved on diabetic test strips if they had obtained pricing similar to the pricing that Medicare obtained through the Competitive Bidding Program or by establishing a manufacturer rebate program. Test strips are just 1 of 339 DME items covered by the Competitive Bidding Program. Because we identified potential savings for test strips in Illinois and Ohio, we conducted this review of 42 selected DME items, including test strips in Minnesota.

Our objective was to determine whether the Minnesota Medicaid program could achieve cost savings for the 42 selected DME items by obtaining pricing similar to the pricing that Medicare obtained through the Competitive Bidding Program.

BACKGROUND

The Minnesota Department of Human Services (State agency) administers the Minnesota Medicaid program. The State agency allows eligible providers in the Minnesota Medicaid program to bill for DME items. The State agency reimburses fee-for-service providers the lesser of the dollar amount of the submitted charge or the Medicaid maximum payment rate. Approximately one-third of the Minnesota Medicaid population received care under a fee-for-service arrangement.

HOW WE CONDUCTED THIS REVIEW

Our review covered Medicaid payments for the 42 selected DME items from January 1, 2012, through December 31, 2012 (audit period). We limited our review to 65,081 paid lines of service with reimbursement rates between the average Medicare competitive bidding area (CBA) payment rate and Minnesota's Medicaid maximum payment rate, which represented 92 percent of all lines of service and 92 percent of payments for the audit period. The majority of the remaining claims were associated with enhanced rate modifiers that provided a reimbursement in excess of the Medicaid maximum payment rate. We compared Minnesota's Medicaid payment rates for DME items with the average Medicare CBA payment rates for the same products in the nine CBAs under the first round of bidding.

WHAT WE FOUND

The Minnesota Medicaid program could have saved an estimated \$2.27 million 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.

WHAT WE RECOMMEND

We recommend that the State agency establish competitive bidding that functions similarly to Medicare's Competitive Bidding Program for the purchase of the 42 selected DME items, which could have resulted in cost savings of approximately \$2.27 million for the 1-year period we reviewed.

STATE AGENCY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the State agency concurred with our finding that Minnesota could achieve lower rates of payment for selected DME items. However, the State agency did not concur entirely with the recommended approach to lowering the rates associated with the categories of DME. The State agency is in the process of implementing or recommending alternative methods to achieve lower rates within the categories of DME noted in the audit. Although we support the use of alternative methods, we have not reviewed the State agency's plan to lower payment rates and take no position as to its adequacy and effectiveness.

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INTRODUCTION

WHY WE DID THIS REVIEW

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

In previous audits, we identified an estimated \$16.5 million that the Illinois and Ohio Medicaid programs could have saved on diabetic test strips if they had obtained pricing similar to the pricing that Medicare obtained through the Competitive Bidding Program, or by establishing a manufacturer rebate program.¹ Test strips are just 1 of 339 DME items covered by the Competitive Bidding Program. Because we identified potential savings for test strips in Illinois and Ohio, we conducted this review of 42 selected DME items, including test strips, in Minnesota.

OBJECTIVE

Our objective was to determine whether the Minnesota Medicaid program could achieve cost savings for the 42 selected DME items by obtaining pricing similar to the pricing that Medicare obtained through the Competitive Bidding Program.

BACKGROUND

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

The Minnesota Department of Human Services (State agency) administers the Minnesota Medicaid program. The State agency allows eligible providers in the Minnesota Medicaid program to bill for DME items.² The State agency reimburses fee-for-service providers the lesser of the dollar amount of the submitted charge or the Medicaid maximum payment rate that is set by the State agency. The State's Medicaid maximum payment rates are limited to the Medicare fee schedule amount or if no amount has been established in the Medicare fee schedule then an amount set by the State agency based on usual and customary charges.³ Approximately one-third of the Minnesota Medicaid population received care under a fee-for-service arrangement.

¹ *Illinois Significantly Reduced Medicaid Costs for Home Blood-Glucose Test Strips But Could Achieve Additional Reductions* (A-05-12-00009, issued May 2, 2013), and *Ohio Medicaid Costs for Home Blood-Glucose Test Strips Could Be Reduced by Approximately 50 Percent* (A-05-11-00098, issued March 13, 2012).

² Minnesota Administrative Rule 9505.0310.

³ Minnesota Administrative Rule 9505.0445(S). For information see Appendix B.

State Medicaid programs may apply to the Centers for Medicare & Medicaid Services (CMS) for a waiver to establish special procedures for the purchase of medical devices through competitive bidding or through another process if the State assures, in the certification required, and CMS finds that adequate services or devices are available to beneficiaries under the special procedures.⁴

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

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

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

- oxygen supplies and equipment;
- standard power wheelchairs, scooters, and related accessories;
- complex rehabilitative power wheelchairs and related accessories—Group 2;
- mail-order diabetic supplies;
- enteral nutrients, equipment, and supplies;
- continuous positive airway pressure devices (CPAPs), respiratory assist devices (RADs), and related supplies and accessories;
- hospital beds and related accessories;
- walkers and related accessories; and
- support surfaces—Group 2 mattresses and overlays (Miami-Fort Lauderdale-Pompano Beach, Florida, CBA only).

HOW WE CONDUCTED THIS REVIEW

Our review covered Medicaid payments for the 42 selected DME items associated with 5 product categories from January 1, 2012, through December 31, 2012 (audit period). We excluded product categories associated with oxygen supplies and equipment, standard power wheelchairs,

⁴ Social Security Act § 1915(a)(1)(B), 42 CFR § 431.51(d), and 42 CFR § 431.54(d).

complex rehabilitative power wheelchairs, and support surfaces. The oxygen supplies and equipment were excluded because of inconsistent rates due to volume purchase contracts in Minnesota; power wheelchairs were excluded due to on-going national reviews of the product category; and support surfaces were excluded because the CBA rates were only applicable for Miami, Florida. We limited our review to 65,081 paid lines of service with reimbursement rates between the average Medicare CBA payment rate and Minnesota's Medicaid maximum payment rate, which represented 92 percent of all lines of service and 92 percent of payments for the audit period. The majority of the remaining claims were associated with enhanced rate modifiers that provided a reimbursement in excess of the Medicaid maximum payment rate. We compared Minnesota's Medicaid payment rates for DME items with the average Medicare CBA payment rates for the same products in the nine CBAs under the first round of bidding.⁵

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

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

FINDING

MEDICARE COMPETITIVE BIDDING PROGRAM RATES SIGNIFICANTLY LOWER THAN MINNESOTA'S AVERAGE MEDICAID PAYMENT RATES FOR SELECTED ITEMS OF DURABLE MEDICAL EQUIPMENT

The Minnesota Medicaid program could have saved an estimated \$2.27 million 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.

POTENTIAL COST SAVINGS FROM COMPETITIVE BIDDING

For the 42 selected DME items that we reviewed, the State agency reimbursed providers \$6.83 million for DME items with payment rates between the average Medicare CBA payment rate and Minnesota's Medicaid maximum payment rate during the audit period. We estimate that the State agency's cost could have been reduced to \$4.56 million for the selected DME items if it had used a competitive bidding program to obtain pricing similar to Medicare's Competitive Bidding Program.

⁵ Round one of the Medicare competitive bidding program did not include a CBA in Minnesota. Therefore, we used the average of the nine CBA payment rates for our comparison. The CBAs were geographically dispersed and had large populations similar to the Minneapolis/St. Paul metropolitan area. The largest total variation in payment rates between the nine CBAs was approximately 16 percent.

Table 1 summarizes the potential cost savings achievable through the use of competitive bidding for five product categories of the selected DME items. See Appendix C for a detailed list by HCPCS of potential cost savings for the five product categories.

Table 1: Potential Minnesota Medicaid Cost Savings Through Competitive Bidding

Product Category	MN Medicaid Costs	Medicare CBA Costs (Average of Nine CBAs)	Potential Cost Savings	Average Savings Percentage
Diabetic supplies	\$1,458,133	\$591,953	\$866,180	59%
Enteral nutrients, equipment, and supplies	3,546,080	2,577,313	968,767	27%
CPAPs, RADs, and related supplies and accessories	1,647,256	1,262,155	385,101	23%
Hospital beds and related accessories	83,774	61,438	22,336	27%
Walkers and related accessories	93,077	66,533	26,544	29%
Total	\$6,828,320	\$4,559,392	\$2,268,928	33%

Table 2 details Minnesota’s weighted average Medicaid payment rates and the weighted average Medicare CBA payment rates in 2011 for five product categories of the selected DME items.⁶ See Appendix D for the complete list of Minnesota Medicaid and Medicare CBA average payment rates for the 42 selected DME items comprising the five product categories.

⁶ Weighted averages were used to account for the wide variation in prices and quantities for HCPCS within a specific product category. The weighted average was based on the payment rate for all claims within the product category.

Table 2: Weighted Average of Payment Rates for Durable Medical Equipment Items by Product Category

Product Category	Weighted Average MN Medicaid Payment Rate	Weighted Average Medicare CBA Payment Rate
Diabetic supplies	\$34.99	\$14.21
Enteral nutrients, equipment, and supplies	1.93	1.40
CPAPs, RADs, and related supplies and accessories	53.81	41.23
Hospital beds and related accessories	107.82	79.07
Walkers and related accessories	69.51	46.69

Table 3 illustrates three examples of potential cost savings achievable through a reduction of Minnesota’s Medicaid payment rate to the average Medicare CBA payment rate.

Table 3: Examples of Potential Cost Savings Using the Average Medicare Competitive Bidding Area Payment Rates

Product Description (HCPCS)	Minnesota’s Average Medicaid Payment Rate	Medicare CBA Payment Rate (Average of Nine CBAs)	Units Reimbursed	Potential Cost Savings
Blood glucose test strips (A4253)	\$35.97	\$14.62	39,956	\$853,197
Enteral feeding supply kit (B4035)	10.86	7.50	155,072	520,299
CPAP (E0601)	70.23	58.23	5,391	64,699

RECOMMENDATION

We recommend that the State agency establish competitive bidding that functions similar to Medicare’s Competitive Bidding Program for the purchase of the 42 selected DME items, which could have resulted in cost savings of approximately \$2.27 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 concurred with our finding that Minnesota could achieve lower rates of payment for selected DME items. However, the State agency did not concur entirely with the recommended approach to lowering the rates associated with the categories of DME. The State agency is in the process of implementing or recommending alternative methods to achieve lower rates within the categories of DME noted in the audit. Although we support the use of alternative methods, we have not reviewed the State agency's plan to lower payment rates and take no position as to its adequacy and effectiveness. The State agency's comments appear in their entirety as Appendix E.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered Medicaid payments for 42 selected DME items for the audit period. We limited our review to 65,081 paid lines of service with reimbursement rates between the average Medicare CBA payment rate and Minnesota's Medicaid maximum payment rate, which represented 92 percent of all lines of service and 92 percent of payments for the audit period. The majority of the remaining claims were associated with enhanced rate modifiers that provided a reimbursement in excess of the Medicaid maximum payment rate. Medicaid paid claims that were less than the average Medicare CBA payment rate may not have been comparable to the DME items under the Competitive Bidding Program and were excluded from review.

Of the 339 DME items comprising the first round of bidding under the Medicare Competitive Bidding Program, the 42 items that we selected were associated with 5 product categories. We excluded product categories associated with oxygen supplies and equipment, standard power wheelchairs, complex rehabilitative power wheelchairs, and support surfaces. Additionally, we excluded DME items that were (1) included with bundled services under Minnesota's Medicaid fee schedule, (2) not covered by the Minnesota Medicaid program, or (3) reimbursed above Minnesota's Medicaid maximum payment rate or below the average Medicare CBA payment rate.

We did not review the overall internal control structure of the State agency. We limited our internal control review to obtaining an understanding of the State agency's pricing and reimbursement policies related to the 42 selected DME items.

We performed our fieldwork in Saint Paul, Minnesota, in January 2013.

METHODOLOGY

To accomplish our audit objective, we:

- identified the nine Medicare CBAs and all DME competitive bid payment rates;
- selected five product categories for review and excluded four product categories associated with oxygen supplies and equipment, standard power wheelchairs, complex rehabilitative power wheelchairs, and support surfaces;
- selected 42 DME items associated with 5 Medicare Competitive Bidding Program product categories and covered by the Minnesota Medicaid program;
- obtained and reviewed a list of Minnesota Medicaid payments for the 42 selected DME items for the audit period;
- calculated the average Medicaid payment rate for the 42 selected DME items;

- calculated the average of the nine Medicare CBA payment rates;
- compared the Minnesota Medicaid program payment for each DME claim with the average Medicare CBA payment for the same DME item during the review period;
- determined the number of payments with reimbursement rates between the average Medicare CBA payment rate and Minnesota's Medicaid maximum payment rate for the 42 selected items;
- calculated the amounts that the State agency could have paid if the Minnesota Medicaid program had used the average CBA payment rate; and
- compared the amount that the State agency reimbursed providers with the average CBA payment rate to determine the approximate dollar amount that Minnesota could have saved.

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 number of DME claims to other State Medicaid programs in making a subjective determination of data reliability. In our opinion, the data obtained from the State agency was sufficiently reliable for this audit.

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

APPENDIX B: STATE AND FEDERAL REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT PURCHASES

MINNESOTA REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT PURCHASES

Minnesota Administrative Rule 9505.0310 allows the State agency to permit eligible providers in the Minnesota Medicaid program to bill for DME items.

Minnesota Administrative Rule 9505.0445(S) allows the State agency to reimburse providers the lesser of the submitted charge, the Medicare fee schedule amount for medical supplies and equipment, or the amount determined as appropriate. If Medicare has not established a reimbursement amount for an item of medical equipment or a medical supply, then the medical assistance payment shall be based upon the 50th percentile of the usual and customary charges submitted to the department for the item or medical supply for the previous calendar year minus 20 percent. For an item of medical equipment or a medical supply for which no information about usual and customary charges exists for a previous calendar year payments shall be based on the manufacturer's suggested retail price minus 20 percent.

FEDERAL REQUIREMENTS FOR DURABLE MEDICAL EQUIPMENT PURCHASES

Medicaid Durable Medical Equipment

Section 1915(a)(1)(B) of the Social Security Act (the Act) and requirements established in 42 CFR § 431.51(d) and 42 CFR § 431.54(d) allow the Medicaid agency to establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise if the State assures, in the certification required under section 431.51(d), and CMS finds that adequate services or devices are available to beneficiaries under the special procedures.

Medicare Durable Medical Equipment

Section 1834(a) of the Act provides the requirements for the DME fee schedule payment methodology. Medicare generally pays for most medical equipment and supplies on the basis of fee schedules. Pursuant to 42 CFR § 405.502(a), the law allows for flexibility in the determination of reasonable charges to accommodate reimbursement to the various ways in which health services are furnished and charged for. The criteria for determining what charges are reasonable include the prevailing charges in the locality for similar services. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003⁷ mandated that CMS establish the Competitive Bidding Program for selected durable medical equipment, prosthetics, orthotics, and supplies categories by January 1, 2011, in competitive bidding areas. Round 1 of the Competitive Bidding Program was implemented on January 1, 2011, for nine product categories in nine competitive bidding areas.

⁷ P.L. No. 108-173, section 302, amending Social Security Act § 1847.

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

Product Category	HCPCS	MN Medicaid Costs	Average Medicare CBA Costs	Potential Cost Savings	Savings %
Diabetic supplies	A4253	\$1,437,354	\$584,157	\$853,197	59
	A4256	4,096	2,058	2,038	50
	A4258	3,151	1,045	2,106	67
	A4259	13,532	4,693	8,839	65
	Total	\$1,458,133	\$591,953	\$866,180	59
Enteral nutrients, equipment, and supplies	B4034	112,032	73,466	38,566	34
	B4035	1,683,339	1,163,040	520,299	31
	B4036	96,199	65,984	30,215	31
	B4082	5,625	4,515	1,110	20
	B4088	24,022	20,302	3,720	15
	B4149	168,522	128,725	39,797	24
	B4150	454,085	332,160	121,925	27
	B4152	232,370	181,747	50,623	22
	B4153	434,133	360,770	73,363	17
	B4154	51,556	37,772	13,784	27
	B4155	54,316	43,786	10,530	19
	B9002 (NU)	42,335	29,778	12,557	30
	B9002 (RR)	184,111	133,838	50,273	27
	E0776	3,435	1,430	2,005	58
	Total	\$3,546,080	\$2,577,313	\$968,767	27

Product Category (con't)	HCPCS (con't)	MN Medicaid Costs (con't)	Average Medicare CBA Costs (con't)	Potential Cost Savings (con't)	Savings % (con't)
CPAPs, RADs, and related supplies and accessories	A4604	81,611	67,925	13,686	17
	A7030	194,297	144,460	49,837	26
	A7031	41,067	31,430	9,637	23
	A7032	16,486	12,166	4,320	26
	A7033	5,631	4,239	1,392	25
	A7034	135,948	97,536	38,412	28
	A7035	80,927	51,901	29,026	36
	A7037	78,839	45,918	32,921	42
	A7038	26,714	20,392	6,322	24
	A7039	8,313	5,252	3,061	37
	A7046	51,033	39,976	11,057	22
	E0470	137,198	117,620	19,578	14
	E0471	225,893	182,344	43,549	19
	E0562 (NU)	103,601	71,173	32,428	31
	E0562 (RR)	81,081	55,905	25,176	31
	E0601	\$378,617	\$313,918	\$64,699	17
	Total	\$1,647,256	\$1,262,155	\$385,101	23
Hospital beds and related accessories	E0255	25,571	21,522	4,049	16
	E0260	54,496	37,282	17,214	32
	E0303	3,707	2,634	1,073	29
	Total	\$83,774	\$61,438	\$22,336	27
Walkers and related accessories	E0135	11,652	8,273	3,379	29
	E0143	61,261	43,580	17,681	29
	E0149	10,067	7,293	2,774	28
	E0155	3,724	2,549	1,175	32
	E0156	6,373	4,838	1,535	24
	Total	\$93,077	\$66,533	\$26,544	29

**APPENDIX D: POTENTIAL COST SAVINGS FOR THE 42 SELECTED
DURABLE MEDICAL EQUIPMENT ITEMS**

HCPCS	Product Brief Description	Minnesota Medicaid Average Payment Rate	Medicare CBA Payment Rate (Average of Nine CBAs)	Potential Cost Savings (per Unit Reimbursed)
B9002	Enteral nutrition infusion pump	\$1,144.19	\$804.82	\$339.37
E0562	Humidifier, heated	261.62	179.73	81.89
E0471	Respiratory assist device (rental)	419.10	338.30	80.80
E0303	Hospital bed, heavy duty, extra wide (rental)	264.80	188.11	76.69
E0149	Walker, heavy duty, wheeled	193.60	140.25	53.35
A7030	Full face mask	164.10	122.01	42.09
E0260	Hospital bed, semi-electric (rental)	117.45	80.35	37.10
B9002	Enteral nutrition infusion pump (rental)	110.71	80.48	30.23
A7034	Nasal interface	102.14	73.28	28.86
E0143	Walker, folding, wheeled	92.96	66.13	26.83
E0470	Respiratory assist device (rental)	161.60	138.54	23.06
A4253	Blood glucose test strips (per 50 pack)	35.97	14.62	21.35
E0135	Walker, folding, pick-up	70.19	49.84	20.35
A7037	Tubing used with positive airway pressure device	35.18	20.49	14.69
A7031	Face mask interface	60.39	46.22	14.17
E0255	Hospital bed, variable height (rental)	85.52	71.98	13.54

HCPCS	Product Brief Description	Minnesota Medicaid Average Payment Rate	Medicare CBA Payment Rate (Average of Nine CBAs)	Potential Cost Savings (per Unit Reimbursed)
A7035	Headgear used with positive airway pressure device	\$34.58	\$22.18	\$12.40
E0601	Continuous airway pressure device (rental)	70.23	58.23	12.00
A4258	Spring powered device for lancet	17.90	5.94	11.96
A4604	Tubing with heating element	55.82	46.46	9.36
A7032	Cushion for use on nasal mask interface	35.00	25.83	9.17
E0776	IV pole (rental)	15.69	6.53	9.16
E0155	Wheel attachment, rigid pick-up walkers	27.38	18.74	8.64
E0562	Humidifier, heated (rental)	26.06	17.97	8.09
A4259	Lancets (per 100 pack)	12.08	4.19	7.89
A7033	Pillow for use on nasal cannula type interface	24.48	18.43	6.05
B4088	Gastrostomy/jejunostomy tube	33.22	28.08	5.14
A4256	Normal, low and high calibrator solutions/chips	9.87	4.96	4.91
A7039	Filter, non-disposable	12.79	8.08	4.71
E0156	Seat attachment, walker	19.55	14.84	4.71
A7046	Water chamber for humidifier	16.97	13.29	3.68
B4035	Enteral feeding supply kit, pump fed	10.86	7.50	3.36

HCPCS	Product Brief Description	Minnesota Medicaid Average Payment Rate	Medicare CBA Payment Rate (Average of Nine CBAs)	Potential Cost Savings (per Unit Reimbursed)
B4082	Nasogastric tubing without stylet	\$15.00	\$12.04	\$2.96
B4036	Enteral feeding supply kit, gravity fed	7.44	5.10	2.34
B4034	Enteral feeding supply kit, syringe fed	5.67	3.72	1.95
A7038	Filter, disposable	3.97	3.03	0.94
B4149	Enteral formula, manufactured blenderized natural foods	1.47	1.12	0.35
B4154	Enteral formula, nutritionally complete for special metabolic needs	1.13	0.83	0.30
B4153	Enteral formula, nutritionally complete	1.74	1.45	0.29
B4155	Enteral formula, nutritionally incomplete modular nutrients	0.88	0.71	0.17
B4150	Enteral formula, nutritionally complete with intact nutrients	0.63	0.46	0.17
B4152	Enteral formula, nutritionally complete, calorically dense	0.51	0.40	0.11

APPENDIX E: STATE AGENCY COMMENTS



Minnesota Department of **Human Services**

November 21, 2013

Department of Health and Human Services
Office of Audit Services, Region V
Attn: Sheri L. Fulcher, Regional Inspector General for Audit Services
233 North Michigan Avenue, Suite 1360
Chicago, Illinois 60601

Re: Draft Audit Report Number A-05-13-00015

Dear Ms. Fulcher:

Thank you for providing an opportunity to comment on draft audit report A-05-11-00013 titled "*The Minnesota Medicaid Program Could Significantly Lower Payment Rates for Selected Durable Medical Equipment and Supplies.*" We appreciate the thoughtful, detailed approach taken by your audit staff in reviewing this topic. We concur with the finding that Minnesota could achieve lower rates, however, we do not concur entirely with the recommended approach to lowering the rates associated with the categories of durable medical equipment (DME). Minnesota is in the process of implementing or recommending alternative methods to achieve lower rates within the categories of DME noted in the audit.

Not surprisingly, one of the largest categories for savings is diabetic testing supplies. Our agency received legislative authority last legislative session to establish a preferred diabetic testing supplies program that allowed us to obtain competitive bids from manufacturers and collect rebates on diabetic testing strips. We have received those bids and are finalizing the list of selected manufacturers. Through this program, beginning January 1, 2014, we will achieve a per unit rate for test strips that is below the Medicare rate. We believe this program aligns with the audit recommendations and accomplishes the same goals through a slightly different mechanism.

With respect to the other categories of DME included in the audit, Minnesota's current Medicaid rates for DME and supplies are generally capped at the Medicare rate. The Medicare competitive bid rate would have become the Medicaid rate for recipients living in the Twin Cities metropolitan area (the Medicare competitive bid area) on July 1, 2013; however the state legislature amended the law to delay implementation of the Medicare competitive bid rate for one year. Minnesota DHS is currently examining potential proposals using the Medicare competitive bid rates as a benchmark for the rate in the Twin Cities Medicare competitive bid area. The result of such proposals would be to pay either the Medicare competitive bid rate or some designated percentage above the Medicare rate set by the legislature. We believe this methodology would allow the Minnesota Medicaid program to leverage the Medicare competitive bid process, but also permits the flexibility to make appropriate adjustments to the Medicare rate when necessary to preserve access and accommodate utilization patterns unique to the

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Medicaid population. Because the fee-for-service rate applies to a relatively small proportion of Medicaid recipients, a Medicaid specific competitive bidding process may not achieve the desired results if the volume of services is not high enough to attract vendors to provide services at a significantly lower rate. For example, the combined total payments of \$176,851 for hospital beds and walkers and related accessories under the current Medicaid rates may not represent a large enough volume to encourage competitive bids. By tying our Medicaid rates to the Medicare competitive bid rates, we can incorporate an element of “what the market will bear”, but also acknowledge that the population and utilization upon which the Medicare competitive bid rate was established differs from that of Medicaid.

We are committed to continuing our efforts to examine and implement strategies that promote cost effectiveness. Minnesota’s Medicaid program has used volume purchase contracts to lower rates associated with oxygen, eyeglasses, and hearing aids with a great deal of success. These contracts have been joined by Medicaid programs in other states and other health care payers within Minnesota. We believe the preferred diabetic testing supplies program and our proposal to use the Medicare competitive bid rates in Minnesota as a benchmark for our Medicaid rates can accomplish results consistent with the recommendations of this audit.

If you have any questions, comments or concerns about our response, please contact Gary L. Johnson, Director of Internal Audits, at 651 431-3623 or through e-mail at Gary.L.Johnson@state.mn.us.

Sincerely,

Lucinda E. Jesson
Commissioner

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