

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**STATE MEDICAID AGENCIES
CAN SIGNIFICANTLY REDUCE
MEDICAID COSTS FOR
DIABETIC TEST STRIPS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General

March 2014
A-05-13-00033

Office of Inspector General

<https://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <https://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

Select State Medicaid agencies obtained or could obtain significant savings on diabetic test strips through manufacturer rebates and reduced payments to providers, and similar opportunities may be available to other State Medicaid agencies.

WHY WE DID THIS REVIEW

During recent Medicaid audits, we determined that home blood-glucose test strips (test strips) are available to the Centers for Medicare & Medicaid Services (CMS) and certain State Medicaid agencies at a net cost well below that available to other State Medicaid agencies. This report summarizes the findings of those audits and discusses the potential application to other States.

Our objective was to summarize the results of prior audits that identified opportunities for State Medicaid programs to achieve savings for test strips.

BACKGROUND

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

Medicare Part B pays for durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS). DMEPOS includes items such as wheelchairs, hospital beds, and medical supplies such as test strips. CMS was required to establish a competitive bidding program for selected DMEPOS categories in Competitive Bidding Areas (CBAs). The CBA program lowered the Medicare fee schedule payment amounts for medical supply items while ensuring continued beneficiary access to quality items and services. Round 1 of the DMEPOS competitive bidding program became effective January 1, 2011, and established single payment amounts for test strips. The test strip payment rates in the nine CBAs ranged from \$13.88 to \$15.62.

The Medicare national mail-order DMEPOS competitive bidding program was established for diabetic testing supplies. National mail-order contracts and prices were effective July 1, 2013. The American Taxpayer Relief Act of 2012 provided that payments for diabetic supplies that are non-mail-order items shall be equal to the single payment amounts established under the national mail-order competition for diabetic supplies. The new Medicare rate, effective July 1, 2013, set the price for a 50-pack of test strips to \$10.41.

State Medicaid agencies may obtain a waiver from CMS to establish special procedures for the purchase of medical devices, including test strips. States may establish arrangements in which manufacturers of test strips agree to provide a rebate to the States for each of the manufacturers' products dispensed to Medicaid beneficiaries and billed to State Medicaid agencies. Under the rebate programs, the States reimburse Medicaid providers the normal Medicaid fee schedule

amount and subsequently receive a refund from the manufacturer based on the established rebate amount. States may also initiate a competitive bidding program to reduce the amount reimbursed to providers of test strips.

HOW WE CONDUCTED THIS REVIEW

We conducted audits in Illinois, Indiana, New Jersey, New York, and Ohio to determine whether opportunities exist for State Medicaid programs to achieve savings for test strips. In our reviews, we requested each State's Medicaid Management Information System test strip paid claim data for analysis. We first determined whether each State had a rebate program for test strips and calculated the amount of cost savings that each State achieved with the rebates. We also reviewed each State's Medicaid reimbursement rate for test strips and compared those rates with available Medicare rates to determine the amount of savings the State could have achieved had it used a competitive bidding program similar to the Medicare program.

WHAT WE FOUND

In our previous audits, we found that two of the five State Medicaid agencies had saved \$17.9 million through the use of rebates, and four of the five State Medicaid agencies could save an additional \$29.7 million through the use of rebates or competitive bidding on the purchase of test strips, for a total savings of \$47.6 million. We also identified \$8.3 million in additional savings in four of the five States had they obtained pricing comparable to pricing under Medicare's national mail-order competition for diabetic supplies.

Through the use of manufacturer rebate programs, two State Medicaid programs reduced the net cost of test strips by approximately 51 percent. The State Medicaid agencies' use of manufacturer rebates led to reduced costs that benefited both the States and the Federal Government while maintaining access to test strips for Medicaid beneficiaries.

We found that Medicaid provider reimbursement rates for test strips varied significantly among the States that we reviewed. We determined that opportunities exist for these States to lower provider reimbursement rates, resulting in cost savings for the State in addition to the savings that can be achieved through a manufacturer rebate program. One State Medicaid program initiated a competitive bidding program after the completion of our audit.

WHAT WE RECOMMEND

We recommend that CMS work with State Medicaid agencies to determine whether the use of manufacturer rebates and lower provider reimbursement rates could achieve net savings for the purchase of test strips.

CMS COMMENTS

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

TABLE OF CONTENTS

INTRODUCTION	1
Why We Did This Review.....	1
Objective.....	1
Background.....	1
Obtaining Lower Rates of Payment: How the Federal Government Has Obtained Lower Prices for Medical Equipment and Supplies.....	1
How We Conducted This Review.....	2
FINDINGS.....	3
Achieved Cost Savings for Test Strip Purchases Through the Use of Manufacturer Rebate Programs	3
New York, Indiana, and Illinois Implemented Manufacturer Rebate Programs and Achieved Significant Savings.....	3
Potential Cost Savings for Test Strips Through the Use of Manufacturer Rebate Programs or by Lowering Provider Reimbursement Rates	4
Ohio’s Implementation of a Manufacturer Rebate Program or Use of Competitive Bidding Could Result in Significantly Lower Test Strip Costs.....	4
Illinois and New York Implemented Manufacturer Rebate Programs but High Provider Reimbursement Rates Limited Net Savings	4
New Jersey’s High Provider Reimbursement Rates Could be Reduced To Achieve Net Savings for Test Strip Costs	4
Conclusion	5
RECOMMENDATION	6
CMS COMMENTS	6
APPENDIXES	
A: Audit Scope and Methodology	7
B: Federal Requirements for Durable Medical Equipment and Supply Purchases and Payments	8

C: Cost Savings From Manufacturer Rebates and Lower Provider Reimbursement Rates.....	9
D: CMS Comments.....	10

INTRODUCTION

WHY WE DID THIS REVIEW

During recent Medicaid audits, we determined that home blood-glucose test strips (test strips) are available to the Centers for Medicare & Medicaid Services (CMS) and certain State Medicaid agencies at a net cost well below that available to other State Medicaid agencies. This report summarizes the findings of those audits and discusses the potential application to other States.

OBJECTIVE

Our objective was to summarize the results of prior audits that identified opportunities for State Medicaid programs to achieve savings for test strips.

BACKGROUND

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

State Medicaid agencies may obtain a waiver from CMS to establish special procedures for the purchase of medical devices, including test strips.¹ States may establish arrangements in which manufacturers of test strips agree to provide a rebate to the States for each of the manufacturers' products dispensed to Medicaid beneficiaries and billed to State Medicaid agencies. Under the rebate programs, the States reimburse Medicaid providers the normal Medicaid fee schedule amount and subsequently receive a refund from the manufacturer based on the established rebate amount. States may also initiate a competitive bidding program to reduce the amount reimbursed to providers of test strips.

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

Medicare Durable Medical Equipment Competitive Bidding

Medicare Part B pays for durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS). DMEPOS includes items such as wheelchairs, hospital beds, and medical supplies such as test strips. Medicare Part B pays for test strips that physicians prescribe for diabetics. CMS was required to establish a competitive bidding program for selected DMEPOS categories in Competitive Bidding Areas (CBAs).² Round 1 of the DMEPOS competitive bidding program

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

² CBAs represent a geographic area that Medicare selected to participate in the competitive bidding program.

became effective January 1, 2011, and established single payment amounts for test strips.³ The test strip payment rates in the nine CBAs ranged from \$13.88 to \$15.62.

The CBA program lowered the Medicare fee schedule payment amounts for medical supply items, including mail-order test strips. The intended result was to reduce beneficiary out-of-pocket expenses and create savings for taxpayers and the Medicare program while ensuring that high-quality health care products and services are available to beneficiaries.

Medicare National Mail-Order Program

The national mail-order DMEPOS competitive bidding program was established for diabetic testing supplies. Round 2 and national mail-order contracts and prices were effective July 1, 2013. The national mail-order competition includes all parts of the United States, including the 50 States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa.

Medicare National Non-Mail-Order Pricing

The American Taxpayer Relief Act of 2012 provided that payments for diabetic supplies, including test strips, that are non-mail-order items shall be equal to the single payment amounts established under the national mail-order competition for diabetic supplies.⁴ The new Medicare rate, effective July 1, 2013, set the price for a 50-pack of test strips to \$10.41.

HOW WE CONDUCTED THIS REVIEW

We conducted audits in Illinois, Indiana, New Jersey, New York, and Ohio to determine whether opportunities exist for State Medicaid programs to achieve savings for test strips. In our reviews, we requested each State's Medicaid Management Information System test strip paid claim data for analysis. We first determined whether each State had a rebate program for test strips and calculated the amount of cost savings that each State achieved with the rebates. We also reviewed each State's Medicaid reimbursement rate for test strips and compared those rates with available Medicare rates to determine the amount of potential savings had the State used a competitive bidding program similar to the Medicare program.

Appendix A contains the details of our scope and methodology, Appendix B contains the applicable Federal requirements, and Appendix C contains a listing of the achieved and potential savings for each of the five States that we audited.

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

³ For each round, DMEPOS suppliers competed to become Medicare contract suppliers by submitting bids to furnish certain items in competitive bidding areas. Round 1 included nine CBAs for nine product categories. Round 2 included 100 CBAs for 8 product categories, with diabetic testing supplies covered under the national mail-order competition.

⁴ P.L. No. 112-240, § 636 (Jan. 2, 2013).

sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS

In our previous audits, we found that two of the five State Medicaid agencies had saved \$17.9 million through the use of rebates, and four of the five State Medicaid agencies could save an additional \$29.7 million through the use of rebates or competitive bidding on the purchase of test strips, for a total savings of \$47.6 million. We also identified \$8.3 million in additional savings in four of the five States had they obtained pricing comparable to pricing under Medicare's national mail-order competition for diabetic supplies.

Through the use of manufacturer rebate programs, two State Medicaid programs reduced the net cost of test strips by approximately 51 percent. The State Medicaid agencies' use of manufacturer rebates led to reduced costs that benefited both the States and the Federal Government while maintaining access to test strips for Medicaid beneficiaries.

We found that Medicaid provider reimbursement rates for test strips varied significantly among the States that we reviewed. We determined that opportunities exist for these States to lower provider reimbursement rates, resulting in cost savings for the State in addition to the savings that can be achieved through a manufacturer rebate program. One State Medicaid program initiated a competitive bidding program after the completion of our audit.

ACHIEVED COST SAVINGS FOR TEST STRIP PURCHASES THROUGH THE USE OF MANUFACTURER REBATE PROGRAMS

New York, Indiana, and Illinois Implemented Manufacturer Rebate Programs and Achieved Significant Savings

The New York Medicaid program achieved savings of approximately 51 percent by obtaining manufacturer rebates through its preferred diabetic supply program. Overall, the New York Medicaid program achieved savings of approximately \$16.7 million from October 1, 2009, through September 30, 2010, through the use of manufacturer rebates.

The Indiana Medicaid program achieved savings of approximately 50 percent by establishing a manufacturer rebate program for test strips. Overall, the Indiana Medicaid program achieved savings of approximately \$1.2 million from January 1 through June 30, 2011, through the use of manufacturer rebates for test strips.

The Illinois Medicaid program reduced the net cost of test strips purchased from July 1, 2010, through June 30, 2011, through the use of a manufacturer rebate program. 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.⁵

POTENTIAL COST SAVINGS FOR TEST STRIPS THROUGH THE USE OF MANUFACTURER REBATE PROGRAMS OR BY LOWERING PROVIDER REIMBURSEMENT RATES

Ohio's Implementation of a Manufacturer Rebate Program or Use of Competitive Bidding Could Result in Significantly Lower Test Strip Costs

The Ohio Medicaid program could have achieved savings of approximately \$8 million from July 1, 2010, through June 30, 2011, for test strips by establishing a competitive bidding program or through the use of manufacturer rebates. We determined that Medicare payment rates obtained for mail-order test strips through competitive bids in two Ohio CBAs and Medicaid payment rates that the Indiana Medicaid program obtained through manufacturer rebates were significantly lower than the Ohio Medicaid maximum reimbursement rate. Establishing a competitive bidding mail-order program similar to the Medicare program or using manufacturer rebates could result in an approximately 50-percent reduction in the cost of test strips.

Ohio notified us on March 11, 2013, that it had recently awarded test strip vendor contracts that are expected to provide manufacturer rebates that will reduce expenditures by 76 percent.

Illinois and New York Implemented Manufacturer Rebate Programs but High Provider Reimbursement Rates Limited Net Savings

We determined that the Illinois average Medicaid provider reimbursement rate for test strips was significantly greater than the corresponding Illinois Medicare rate. By reducing its provider reimbursement rates, Illinois could further lower the net cost of test strips and could have achieved additional savings of approximately \$8.5 million from July 1, 2010, through June 30, 2011.

We determined that the New York average Medicaid reimbursement rate after manufacturers' rebates was greater than the corresponding Medicare reimbursement rates for mail-order test strips obtained through competitive bids in the nine CBAs. By reducing its provider reimbursement rates, New York could further lower the net cost of test strips and could have achieved additional savings of approximately \$5.9 million from October 1, 2009, through September 30, 2010.

New Jersey's High Provider Reimbursement Rates Could be Reduced To Achieve Net Savings for Test Strip Costs

New Jersey did not have a manufacturer rebate program. However, we determined that both retail test strip prices and Medicare prices obtained through competitive bids were lower than

⁵ Illinois' manufacturer rebate amounts included proprietary information; therefore, we have not presented the Illinois rebate savings in our report.

New Jersey’s average Medicaid fee-for-service prices and the rates paid by the Medicaid managed care organizations’ (MCOs). On the basis of our review of New Jersey’s Medicaid fee-for-service and MCO test strip payments, retail test strip prices, and Medicare CBA payment rates, the State Medicaid agency could achieve savings of approximately \$4.9 million to \$7.2 million by reducing test strip prices to retail levels or establishing a competitive bidding program similar to the Medicare program.

CONCLUSION

On the basis of our review, we found that opportunities exist for States to significantly lower the net cost of test strips. States have already achieved significant savings by implementing manufacturer rebate programs. However, high reimbursement rates for test strips in some States have limited the potential for savings. Pricing under the Medicare national mail-order competition for diabetic supplies, effective July 1, 2013, lowered the price of both mail-order and non-mail-order test strips to \$10.41 for Medicare beneficiaries. If States could replicate the lower Medicare prices through manufacturer rebates or reduced provider reimbursement rates, they could achieve greater cost savings.

The table details additional cost savings of \$8.3 million that the five States that we reviewed could achieve by reducing reimbursement rates for test strips to the Medicare rate of \$10.41.

Table: Additional Cost Savings Using Medicare National Pricing

State	Reported Savings From Prior Audits (See Appendix C)	Additional Savings Using Medicare National Pricing	Total Potential Savings
Illinois	\$8,542,819	N/A ⁶	\$8,542,819
Indiana	1,245,063	\$387,367	1,632,430
New Jersey	7,185,714	1,060,980	8,246,694
New York	22,652,123	3,476,190	26,128,313
Ohio	8,053,168	3,406,759	11,459,927
Total	\$47,678,887	\$8,331,296	\$56,010,183

State Medicaid agencies’ use of manufacturer rebates led to reduced costs that benefited both the States and the Federal Government while maintaining access to test strips for Medicaid beneficiaries. In addition to the savings that can be achieved through a manufacturer rebate program, we determined that pricing under the Medicare national mail-order competition provides opportunities for States to lower reimbursement rates, resulting in an additional \$8.3 million in cost savings for the States.

⁶ Illinois’ manufacturer rebate amounts included proprietary information; therefore, we have not presented the Illinois rebate savings in our report.

RECOMMENDATION

We recommend that CMS work with State Medicaid agencies to determine whether the use of manufacturer rebates and lower provider reimbursement rates could achieve net savings for the purchase of test strips.

CMS COMMENTS

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our prior reviews covered various periods from October 1, 2009, through December 31, 2011. We conducted our fieldwork at State Medicaid agencies in Illinois, Indiana, New Jersey, New York, and Ohio from August 2011 through August 2012.

METHODOLOGY

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

- reviewed applicable Federal and State laws and regulations;
- identified the Medicare payment rates for test strips in nine CBAs;
- identified negotiated manufacturer test strip rebates;
- obtained and reviewed a list of Medicaid paid claims for test strips;
- determined the number of Medicaid paid claims and amounts that were reimbursed;
- based on the paid claims identified above, calculated the amounts that the State agency would have paid if competitive bidding, retail pricing, or rebate programs were in place; and
- determined the approximate amount of cost savings for test strips by comparing the amount that the State agency reimbursed providers with the amount calculated under competitive bidding, retail pricing, or manufacturer rebate programs.

Additionally, for this audit we determined the amount of savings available to the five States had they obtained pricing comparable to pricing under the Medicare national mail-order competition for diabetic supplies.

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

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

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

MEDICAID SPECIAL PROCEDURES FOR MEDICAL DEVICES PURCHASES

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

MEDICARE DURABLE MEDICAL EQUIPMENT FEE SCHEDULE

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

AMERICAN TAXPAYER RELIEF ACT OF 2012

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

**APPENDIX C: COST SAVINGS FROM MANUFACTURER REBATES AND
LOWER PROVIDER REIMBURSEMENT RATES**

State	Report Number⁷	Reported Achieved Savings	Reported Potential Savings	Total Reported Savings	Medicare National Pricing Savings	Total Potential Savings
Illinois	A-05-12-00009	N/A ⁸	\$8,542,819	\$8,542,819	N/A	\$8,542,819
Indiana	A-05-12-00011	\$1,245,063	-	1,245,063	\$387,367	1,632,430
New Jersey	A-02-12-01010	-	7,185,714 ⁹	7,185,714	1,060,980	8,246,694
New York	A-02-11-01042	16,702,422	5,949,701	22,652,123	3,476,190	26,128,313
Ohio	A-05-11-00098	-	8,053,168	8,053,168	3,406,759	11,459,927
Total		\$17,947,485	\$29,731,402	\$47,678,887	\$8,331,296	\$56,010,183

⁷ These reports are available at <https://oig.hhs.gov>.

⁸ Illinois' manufacturer rebate amounts included proprietary information; therefore, we have not presented the Illinois rebate savings in our report.

⁹ Reported savings represent a range of potential savings that could be achieved by using retail pricing or CBA pricing for New Jersey's MCOs (\$3.1 million to \$4.5 million) as well as the Medicaid fee-for-service program (\$1.8 million to \$2.7 million), or a total range between \$4.9 million to \$7.2 million.

APPENDIX D: CMS COMMENTS



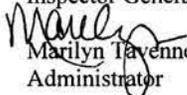
DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator
Washington, DC 20201

DATE: NOV 29 2013

TO: David R. Levinson
Inspector General

FROM: 
Marilyn Tavenner
Administrator

SUBJECT: Office of Inspector General (OIG) Draft Report: "State Medicaid Agencies Can Significantly Reduce Medicaid Costs for Diabetic Test Strips" (A-05-13-00033)

Thank you for the opportunity to review and comment on the above-referenced OIG draft report. The purpose of this report was to summarize the results of prior audits that identified opportunities for state Medicaid agencies to achieve savings for diabetic test strips. Specifically, OIG conducted audits in the following five states: Illinois, Indiana, New Jersey, New York and Ohio to determine whether these particular state Medicaid programs have the potential to achieve savings for test strips.

The audits revealed that:

- Medicaid provider reimbursement rates for test strips varied significantly among each of the above mentioned states.
- Two of the state Medicaid programs reduced their net cost of test strips by approximately 51 percent and saved \$17.9 million through the use of manufacturer rebate programs.
- Four of the five state Medicaid agencies could save an additional \$29.7 million through the use of rebates or competitive bidding on the purchase of test strips, for a total savings of \$47.6 million.
- Potential additional savings of \$8.3 million were identified in four of the five states had they obtained pricing comparable to pricing under Medicare's national mail-order competition for diabetic supplies.

OIG Recommendation

The OIG recommends that CMS work with state Medicaid agencies to determine whether the use of manufacturer rebates and lower provider reimbursement rates could achieve net savings for the purchase of diabetic test strips.

CMS Response

We concur with OIG's recommendation and note that we encourage states to pursue innovative reimbursement methodologies that help them meet statutory requirements for economy and efficiency while ensuring beneficiaries have access to quality services. We provide ongoing technical assistance and support to states developing and implementing value-based purchasing strategies. States can also pursue selective contracting using section 1915(b) authority.

CMS appreciates the efforts of OIG in identifying opportunities for state Medicaid agencies to achieve savings for test strips. We look forward to working with OIG on this and other issues in the future.