



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201



March 8, 2012

TO: Marilyn Tavenner
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: /Gloria L. Jarmon/
Deputy Inspector General for Audit Services

SUBJECT: Ohio Medicaid Costs for Home Blood-Glucose Test Strips Could Be Reduced by Approximately 50 Percent (A-05-11-00098)

Attached, for your information, is an advance copy of our final report on Ohio's Medicaid costs for home blood-glucose test strips. We will issue this report to the Ohio Department of Job and Family Services within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at Brian.Ritchie@oig.hhs.gov or Sheri L. Fulcher, Regional Inspector General for Audit Services, Region V, at (312) 353-2621 or through email at Sheri.Fulcher@oig.hhs.gov. Please refer to report number A-05-11-00098.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION V
233 NORTH MICHIGAN, SUITE 1360
CHICAGO, IL 60601

March 13, 2012

Report Number: A-05-11-00098

Mr. Michael B. Colbert
Director
Ohio Department of Job and Family Services
30 East Broad Street
Columbus, OH 43215

Dear Mr. Colbert:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Ohio Medicaid Costs for Home Blood-Glucose Test Strips Could Be Reduced by Approximately 50 Percent*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mike Barton, Audit Manager, at (614) 469-2543 or through email at Mike.Barton@oig.hhs.gov. Please refer to report number A-05-11-00098 in all correspondence.

Sincerely,

/Sheri L. Fulcher/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**OHIO MEDICAID COSTS FOR
HOME BLOOD-GLUCOSE TEST
STRIPS COULD BE REDUCED BY
APPROXIMATELY 50 PERCENT**



Daniel R. Levinson
Inspector General

March 2012
A-05-11-00098

Office of Inspector General

<http://oig.hhs.gov>

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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.

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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

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. In Ohio, the Department of Job and Family Services (State agency) administers the Medicaid program. During the period July 1, 2010, through June 30, 2011, the State agency reimbursed providers more than \$16 million for home blood-glucose test strips (test strips).

Pursuant to Ohio Administrative Code 5101:3-9-02, the State agency provides for eligible pharmacies in the Ohio Medicaid program to bill for medical supplies, including test strips. Pursuant to Ohio Administrative Code 5101:3-1-60, the State agency reimburses providers the lesser of the submitted charge or the calculated allowable amount. The payment is determined in accordance with Federal and State laws and regulations.

Pursuant to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Act, Medicare Part B covers test strips that physicians prescribe for diabetics. 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.

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), the Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise, if the State assures and CMS finds that adequate services or devices are available to recipients under the special procedures.

Congress enacted legislation to establish a Medicare competitive acquisition program (competitive bidding) under which prices for selected medical supplies, including mail-order test strips, sold in specified competitive bidding areas (CBA) would be determined by suppliers' bids rather than a fee schedule. The first round of bidding closed in December 2009, and competitive bidding was operational as of January 2011 in nine metropolitan areas, including two in Ohio.

The Indiana Medicaid program recently obtained a waiver from CMS 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 42 CFR § 431.54(d). The selective contracting program was structured to obtain manufacturer rebates on test strips and reduce State expenditures.

OBJECTIVE

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

SUMMARY OF FINDINGS

The Ohio Medicaid program could have achieved savings of approximately \$8 million for the period July 1, 2010, through June 30, 2011 (State fiscal year 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. The average Medicare payment rate for a 50-pack of test strips from the 2 Ohio CBAs in 2011 was \$15.42, the net cost after rebate in Indiana was \$17.72 and \$14.70, and the Ohio Medicaid maximum reimbursement rate was \$35.00. 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.

RECOMMENDATIONS

We recommend that the Ohio State agency:

- establish a competitive bidding program similar to Medicare for the purchase of test strips under the Ohio Medicaid program or
- develop a Request for Proposal to obtain manufacturer rebates on test strip purchases and
- implement competitive bidding or use manufacturer rebates, which could have saved approximately \$8 million in State fiscal year 2011 alone.

STATE AGENCY COMMENTS

Although the State agency did not expressly concur with our recommendations in its written comments on our draft report, the actions that it described are compatible with those recommendations. The State agency chose to develop a Request for Proposal to obtain manufacturer rebates on diabetic supplies. The Request for Proposal is in a draft format and is under review by the Medicaid Director. The State agency's comments are included in their entirety as the Appendix.

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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 and State Requirements

Pursuant to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Act, Medicare Part B covers test strips that physicians prescribe for diabetics. The amount allowed for payment of home blood-glucose test strips (test strips) is generally equal to the lesser of the Medicare fee schedule amount or the amount charged by a supplier.

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), the Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise, if the State assures, in the certification required under section 431.51(d), and CMS finds that adequate services or devices are available to beneficiaries under the special procedures.

Competitive Bidding

Congress enacted legislation to establish a Medicare competitive acquisition program (competitive bidding) under which prices for selected medical supplies, including mail-order test strips, sold in specified competitive bidding areas (CBA) would be determined by suppliers' bids rather than a fee schedule. The first round of bidding closed in December 2009, and competitive bidding was operational as of January 2011 in nine metropolitan areas, including two in Ohio.

Manufacturer Rebates

The Indiana Medicaid program recently obtained a waiver from CMS 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 42 CFR § 431.54(d). The selective contracting program was structured to obtain manufacturer rebates on test strips and reduce State expenditures.

Ohio Department of Job and Family Services

Pursuant to Ohio Administrative Code 5101:3-9-02, the Ohio Department of Job and Family Services (State agency) provides for eligible pharmacies in the Ohio Medicaid program to bill for medical supplies, including test strips.

Pursuant to Ohio Administrative Code 5101:3-1-60, the State agency reimburses providers the lesser of the submitted charge or the calculated allowable amount. The calculated allowable amount is determined in accordance with Federal and State laws and regulations.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our audit included Medicaid payments for test strips for the period July 1, 2010, through June 30, 2011 (State fiscal year (SFY) 2011). We limited our review to paid claims that were reimbursed at Ohio's Medicaid maximum reimbursement rate of \$0.70 per unit, which represented 85 percent of all test strip claims for the audit period.

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 test strip pricing and reimbursement policies.

We performed our fieldwork in Columbus, Ohio, in August 2011.

Methodology

To accomplish our audit objective, we:

- identified Ohio Medicare CBAs and their payment rates;
- identified negotiated manufacturer test strip rebates in Indiana;
- obtained and reviewed a list of Ohio Medicaid payments for test strips for SFY 2011;
- determined the number of payments that were reimbursed at Ohio's Medicaid maximum reimbursement rate of \$0.70 per unit;
- based on the payments determined above, calculated the amounts that the State agency would have paid under the CBA payment rate and under a rebate program similar to the Indiana program; and
- determined the approximate amount of cost savings that Ohio could save by comparing the amount that the State agency reimbursed providers with the amount calculated under the Medicare CBA payment rate and through manufacturer rebates.

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 objective.

FINDINGS AND RECOMMENDATIONS

The Ohio Medicaid program could have achieved savings of approximately \$8 million for SFY 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. The average Medicare payment rate for a 50-pack of test strips from the 2 Ohio CBAs in 2011 was \$15.42, the net cost after rebate in Indiana was \$17.72 and \$14.70, and the Ohio Medicaid maximum reimbursement rate was \$35.00. 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.

MEDICARE COMPETITIVE BIDDING PROGRAM

Pursuant to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Act, Medicare Part B covers test strips that physicians prescribe for diabetics. 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.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 mandated the Medicare competitive bidding program. The program set lower payment amounts for medical supply items, including mail-order test strips, while ensuring continued access to quality items and services. The intended result was to reduce beneficiary out-of-pocket expenses and create savings for taxpayers and the Medicare program. The Ohio Medicaid program currently does not have a mail-order program for test strips.

As of January 1, 2011, test strips were provided in nine CBAs, including two in Ohio. Table 1 details the Medicare payment rates for a pack of 50 test strips.

Table 1: Calendar Year 2011 Competitive Bidding Area Medicare Payment Rates

Competitive Bidding Area	Cincinnati-Middletown, OH-KY-IN	Cleveland-Elyria-Mentor, OH	Ohio CBA Average	Average of Nine CBAs
Payment per 50 Test Strips	\$15.22	\$15.62	\$15.42	\$14.62

Competitive bidding is a tool to reduce the costs of test strips and ensure that high-quality health care products and services are available to beneficiaries.

MANUFACTURER REBATES

The Indiana Medicaid program recently obtained a waiver from CMS 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 42 CFR § 431.54(d). The selective contracting program is structured to obtain manufacturer rebates on test strips and reduce State expenditures while maintaining access to products for Medicaid beneficiaries. The Indiana Medicaid program solicited proposals from manufacturers of test strips through a Request for Proposal procurement process. The winning proposals provided the largest rebates to the State for the purchase of test strips. Medicaid beneficiaries obtain the contracted test strips from providers enrolled in the Indiana Medicaid program. Test strips not listed under the selective contracting program can be purchased after obtaining prior authorization based on medical necessity. The selective contracting program resulted in rebates of approximately 50 percent of the amounts reimbursed to Indiana Medicaid providers.

POTENTIAL SAVINGS FOR THE OHIO MEDICAID PROGRAM

Significant cost savings can be achieved through competitive bidding 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. The average Medicare payment rate for a 50-pack of test strips from the two Ohio CBAs in 2011 was \$15.42, the net cost after rebate in Indiana was \$17.72 and \$14.70, and the Ohio Medicaid maximum reimbursement rate was \$35.00.¹ The State agency reimbursed providers \$16.3 million for 23.3 million test strip units at the Medicaid maximum reimbursement rate during the audit period SFY 2011.

Based on our review of Medicaid paid claims for test strips, current Ohio Medicare CBA payment rates, and net Indiana Medicaid payment rates, savings of approximately \$8 million may have been achievable for the Ohio Medicaid program in SFY 2011. 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.

¹ Ohio's Medicaid maximum reimbursement rate of \$0.70 per unit multiplied by 50 units equals \$35. Indiana's net unit cost of \$0.3544 and \$0.294 per unit multiplied by 50 units equals \$17.72 and \$14.70, respectively.

Table 2 details the potential cost savings achievable through a reduction in the Medicaid maximum reimbursement rate to amounts available under the Ohio Medicare CBA program.

Table 2: Potential Cost Savings Through Reduction in Ohio Medicaid Payment Rate

	Ohio Medicaid	Ohio Medicare CBA (Average of Two CBAs)	Potential Cost Savings
Reimbursement rate (per unit)	\$0.70	\$0.31 ²	\$0.39
Total amount (per 23,301,990 units)	\$16,311,393	\$7,186,334	\$9,125,059

Table 3 details the potential cost savings achievable through the use of manufacturer rebates.

Table 3: Potential Cost Savings Through Manufacturer Rebates

	Ohio Medicaid	Indiana Medicaid (After Rebate)	Potential Cost Savings
Reimbursement rate (per unit)	\$0.70	\$0.3544 ³	\$0.3456
Total amount (per 23,301,990 units)	\$16,311,393	\$8,258,225	\$8,053,168

² We divided the average rate of the 2 CBAs in Ohio by 50 units for comparison to Ohio's Medicaid maximum reimbursement rate of \$0.70 per unit.

³ Reimbursement rate reflects the net cost after the manufacturer rebate payable to the Indiana Medicaid program on covered products dispensed by enrolled pharmacies and/or durable medical equipment providers. Indiana has two rebate agreements in calendar year 2011, providing net unit costs of \$0.3544 and \$0.294. We conservatively used the higher net unit cost of \$0.3544.

RECOMMENDATIONS

We recommend that the Ohio State agency:

- establish a competitive bidding program similar to Medicare for the purchase of test strips under the Ohio Medicaid program or
- develop a Request for Proposal to obtain manufacturer rebates on test strip purchases and
- implement competitive bidding or use manufacturer rebates, which could have saved approximately \$8 million in SFY 2011 alone.

STATE AGENCY COMMENTS

Although the State agency did not expressly concur with our recommendations in its written comments on our draft report, the actions that it described are compatible with those recommendations. The State agency chose to develop a Request for Proposal to obtain manufacturer rebates on diabetic supplies. The Request for Proposal is in a draft format and is under review by the Medicaid Director. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

Ohio**Department of
Job and Family Services****John R. Kasich**, Governor**Michael B. Colbert**, Director

February 1, 2012

Sheri L. Fulcher, Regional Inspector General for Audit Services
Office of Audit Services Region V
233 North Michigan Ave
Suite 1360
Chicago, IL 60601

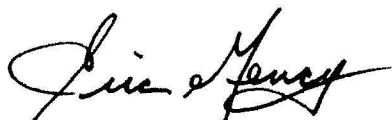
Report Number: A-05-11-00098

Dear Ms. Fulcher:

As requested in the OIG/OAS report listed above, please accept this letter as the State of Ohio's response to the Ohio Medicaid Costs for Home Blood-Glucose Test Strips draft report A-05-11-00098. Please include our official response as part of the final report as attachment A.

Please contact Christina Helm at 614-466-8364 or Christina.Helm@jfs.ohio.gov should you have any questions.

Sincerely,



Eric Meny, Acting Chief Fiscal Officer
Ohio Department of Job and Family Services

Cc: Michael B. Colbert, Director, ODJFS
John McCarthy, Director, Office of Ohio Health Plans, ODJFS
Cynthia Callender-Dungey, COO, Office of Ohio Health Plans, ODJFS

30 East Broad Street
Columbus, Ohio 43215
jfs.ohio.gov

Attachment A**Ohio Department of Job and Family Service (ODJFS)****Response to OIG Ohio Medicaid Costs for Home Blood-Glucose Test Strips Draft Report
A-05-11-00098****OIG Recommendations:**

Establish a competitive bidding program similar to Medicare for the purchase of test strips under the Ohio Medicaid program or develop a Request for Proposal to obtain manufacturer rebates on test strip purchases, and implement competitive bidding or use manufacturer rebates, which could have saved approximately \$8 million in State fiscal year 2011 alone.

ODJFS Response:

The state's biennial budget established the requirement that the Director of Job and Family Service implement purchasing strategies to reduce Medicaid expenditures. One measure that was included was selective contracting. Given that blood glucose test strips are currently billed as part of the pharmacy benefit, Ohio chose to develop a Request for Proposal (RFP) to obtain manufacturer rebates on diabetic supplies including injection and testing. The RFP is in a draft format and is under review by the Medicaid Director.