

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF MEDICAID PAYMENTS FOR  
OXYGEN RELATED DURABLE  
MEDICAL EQUIPMENT AND SUPPLIES**

**MINNESOTA DEPARTMENT OF HUMAN  
SERVICES  
ST. PAUL, MINNESOTA**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**FEBRUARY 2002  
A-05-01-00039**



# Memorandum

Date February 15, 2002

From Regional Inspector General  
for Audit Services

Subject Audit of Medicaid Payments for Oxygen Related Durable Medical Equipment (DME)  
and Supplies (A-05-0 1-00039)

To Michael O'Keefe, Commissioner  
Minnesota Department of Human Services

This final letter report presents the results of our Audit of Medicaid Payments for Oxygen Related Durable Medical Equipment (DME) and Supplies. Although we determined that the State had not incorporated all of Medicare's lower payment levels in its Medicaid fee schedule, the State had often incorporated rates lower than the Medicare experience, which were obtained through a competitive bidding process with oxygen DME providers. As a result, rates for certain items of DME were set at amounts significantly less than those allowable under the Medicare program.

During our audit period of January 1, 1998 through December 31, 1999, the Medicaid program could have saved approximately \$2,200 if the reimbursement rates for oxygen related DME and supplies had been limited to the amounts allowable under the Medicare fee schedule. To the State's credit, these minor overpayments were offset by substantial savings attained by using competitive bidding for oxygen related DME equipment and supplies.

## BACKGROUND

The Medicaid program is jointly administered by the Federal government, through the Centers for Medicare and Medicaid Services (CMS) and by the States, through their designated State agency. The CMS also administers the Medicare program, which generally provides medical care for the elderly. The CMS prepares a fee schedule for DME, prosthetics, orthotics, and supplies provided under the Medicare program. The fee schedule is updated, annually and as needed, by a regional carrier responsible for a specific geographic area. The fee schedule is segregated by CMS Common Procedure Coding System (HCPCS) numbers. Groups of HCPCS numbers are associated with specific categories of services. The Oxygen category contains 17 specific HCPCS numbers.

Recent changes in the Medicare fee schedules, under the Balanced Budget Act of 1997, substantially reduced the payment levels for numerous Medicare items. The Act stated



that the national payment limit for oxygen and oxygen equipment for 1998 is the 1997 limit reduced by 25 percent. The payment limit for 1999 and each subsequent year is the 1997 limit reduced by 30 percent.

Minnesota Medicaid State Plan, Attachment 4.19-B, Section 7.c., states that oxygen is purchased on a volume basis through competitive bidding. The State Plan also provides that Medical supplies and equipment, that are not purchased on a volume basis, should be paid the lower of (i) submitted charge; (ii) Medicare fee schedule amount for medical supplies and equipment; or (iii) an amount determined using a different methodology, if Medicare has not established a payment amount for the medical supply or equipment. The use of a different methodology was not applicable in this audit because Medicare has established a payment rate for all HCPCS numbers included in our audit.

## **RESULTS OF AUDIT**

We reviewed 125,021 paid claims (totaling \$3,100,615) for oxygen related DME and supplies provided to Medicaid recipients during our audit period. Our audit disclosed that the State Medicaid Supply List contained payment data on all 17 HCPCS numbers classified by the CMS Medicare fee schedule as oxygen related equipment and supplies.

We determined that Medicaid reimbursements, for 5 of the 17 oxygen related HCPCS numbers, exceeded the associated amounts allowable under the Medicare payment limits but amounted to only about \$2,200 in Medicaid overpayments. To the State’s credit, these minor overpayments were offset by substantial savings attained by using competitive bidding for oxygen related DME equipment and supplies. The State has achieved significant savings (millions of dollars) by obtaining competitive bids and setting the Medicaid allowable rates for oxygen related DME at amounts much less than the Medicare allowable rates. Due to the insignificance of our estimated overpayment and the substantial savings attained by the State’s implemented competitive billing approach, we will not seek recovery.

## **RECOMMENDATION**

We recommend that the state agency consider the additional opportunities for rate setting savings in future updates of its Medicaid payment levels for oxygen related DME and supplies.

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## **State Agency Response**

In an e-mail response, dated January 31, 2002, a State agency official agreed with the audit report and had no further comments or recommendations.

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If you have any additional comments or concerns, please address them to the HHS Action Official shown on the Report Distribution List. To facilitate identification, please refer to Common Identification Number A-05-0 1-00039 in all correspondence related to this report.

A handwritten signature in black ink that reads "Paul Swanson". The signature is written in a cursive style with a large initial "P".

Paul Swanson  
Regional Inspector General  
for Audit Services