

MEMORANDUM

Date: October 18, 2016

---

Subject: MEDICARE: CMS's Round 2 Durable Medical Equipment and National Mail-order Diabetes Testing Supplies Competitive Bidding Programs

---

**OVERVIEW**

On October 17, 2016, the Government Accountability Office (GAO) published the report, "[CMS's Round 2 Durable Medical Equipment and National Mail-order Diabetes Testing Supplies Competitive Bidding Programs](#)." The GAO found that the number of beneficiaries receiving durable medical equipment (DME) covered under the competitive bidding program (CBP) generally decreased after implementation of Round 2 and the National Mail-Order Program. The GAO also found that in some competitions only had a single active supplier or a single supplier with a large market share.

**FINDINGS**

1. The number of beneficiaries receiving at least one DME item included in CBP Round 2 decreased after the implementation of Round 2.
  - The decrease was largest among items and areas for which CMS established competitive bidding beginning in July 2013 compared to non-CBAs and for non-CBP items.
  - There was a 17% decrease in the number of beneficiaries receiving at least one DME item between 2012 and 2014. There was a 6-7% decrease in utilization for the same items in non-CBAs and for non-CBP items.
  - Some stakeholders expressed that lower payment rates and a smaller number of suppliers may have caused some beneficiaries to not receive needed DME, but CMS stated that CBP has helped limit fraud and abuse and may have curbed unnecessary utilization.
  - Out of the eight product categories in Round 2, seven categories experienced a decrease in utilization between 2012-2014 in both CBAs and non-CBAs, but the decreases were generally greater for CBAs.
  - CPAP is the only product category that experienced an increase in utilization between 2012-2014 and it is also the category with the largest difference between the percentage change in beneficiaries and in items.
  - 95 of the 100 Round 2 areas experienced a decrease in the number of beneficiaries receiving items, ranging from 2-42%.
  - Of the 15 areas with the largest percentage decrease in utilization, 12 were in California and Texas. CMS believes this is because California and Texas historically had high rates of potential fraud and abuse.
  - In 2012, 57% of beneficiaries received supplies through mail order, but by 2014 63% received supplies through retail.
  - Between 2012-2014, there was a 13% increase in beneficiaries receiving diabetes testing supply items through retail outlets and a 39% decrease in the number of beneficiaries receiving supplies under the National Mail-Order Program.

- Diabetes advocacy group guessed that beneficiaries may have decided to switch to retail because they had difficulty finding contracted suppliers that would provide the specific brand test strips they requested.
2. CMS reports that Round 2 and the National Mail-Order Program has had no widespread effects on beneficiary access.
- CMS monitors CBP beneficiary access through calls from 1-800-Medicare, secret shopper calls, beneficiary satisfaction surveys, and health status monitoring tool.
  - The number of Round 2 and National Mail-Order Program inquiries and complaints through 1-800-Medicare have decreased over the first 2 years of CBP implementation.
  - During the first quarter of CBP implementation, 1-800-MEDICARE received almost 100,000 inquiries and 300 complaints, but the numbers dropped sharply during the second quarter of implementation.
  - The mail-order diabetes testing supplies had the highest number of inquiries in the first quarter and standard wheelchairs had the second highest.
  - Reported complaints through 1-800-MEDICARE included: suppliers refusing to serve beneficiaries, poor customer service, delays in receiving DME, receiving the wrong DME, or beneficiaries had difficulty obtaining specific brands/models that had been prescribed by their physician.
  - The number of complaints may not fully capture the true number of beneficiaries who expressed problems because CMS defines complaints as an inquiry to 1-800-MEDICARE that needs to be referred to an outside entity for resolution.
  - Several stakeholder groups reported concerns with delays in delivery of DME items and difficulty locating contracted suppliers as concerns.
  - CMS' health status monitoring tool indicated that CBP has not caused beneficiary access problems.
  - CMS' health status monitoring tool uses Medicare claims data to track seven health measures for three groups of Medicare FFS beneficiaries residing in both CBP and non-CBP areas. GAO found the tool to be sound.
  - Palmetto GBA conducts secret shopping calls to investigate complaints regarding suppliers' non-compliance with contract terms. During those calls if a supplier refuses to meet CBP contract terms, Palmetto GBA describes the results of the call and sends a letter reiterating contract obligations to the supplier. For suppliers who remain noncompliant, CMS terminates the supplier's CBP contract. Suppliers can either submit a corrective action plan, accept the termination or request a hearing.
  - Palmetto GBA made a total of 3,953 secret shopper calls related to Round 2 and 254 calls related to National Mail-Order Program between July 2013-June 2015. This resulted in 43 termination notices and of those, 37 suppliers came into compliance and 6 suppliers terminated their contracts.
  - Through the beneficiary satisfaction surveys, CMS found that majority of beneficiaries rated their experience positively both pre- and post-CBP implementation.
  - CMS obtained responses from 400 beneficiaries from Round 2 and about 2,000 beneficiaries from National Mail-Order Program for each pre- and post-CBP implementation survey.

- Beneficiaries rated their experiences as mostly “good” or “very good,” but there were slightly fewer positive responses post-implementation.
  - Beneficiary satisfaction surveys have some limitations. It did not capture responses from beneficiaries who may have needed, but did not obtain DME during the period and distribution of beneficiaries receiving items across the different product categories could have changed between pre- and post- implementation surveys.
3. Some stakeholders reported beneficiary access issues.
- Four of the five beneficiary advocacy groups interviewed reported very specific concerns with access to care for beneficiaries related to implementation of CBP. These issues included: delays in delivery of DME items and trouble locating contract suppliers to provide specific DME items
  - Three of the four state hospital associations interviewed reported specific concerns with access to care for beneficiaries related to implementation of CBP.
  - Discharge planners and referral agents from Florida and California hospital associations stated that delays in DME delivery resulted in longer hospital stays for some beneficiaries.
  - Florida Hospital Association shared that contract suppliers are no longer delivering DME within 24 hours of the request, 7 days a week. Contracted suppliers now only deliver during certain hours Monday-Friday.
  - In some cases, hospitals loans or provides certain DME in order to discharge beneficiaries on time.
  - GAO found that the average length of hospital stay was slightly lower in 2014 than in 2012 nationally and in California and Florida.
4. Most competitions had several active contracted suppliers but some competitions only had one active supplier or a single supplier with a large market share.
- 84% of competitions had at least 5 active contract suppliers in 2014.
  - 11% of competitions had three or fewer active suppliers in 2014.
  - 1% of competitions had only one active supplier in 2014.
  - The product category with the most number of active supplier was oxygen at 352 suppliers that accounted for over \$362 million in charges in 2014.
  - 86 of the 100 competitions for oxygen had at least 11 active suppliers.
  - 69 of the 100 competitions for NPWT had 4 or fewer active suppliers and 4 competitions only had one active suppliers.
  - All 19 contracted suppliers for National Mail-Order Program were active in 2014.
  - In 14% of the competitions, a single contracted supplier that had at least 75% of the market.
  - In 6% of the competitions, one contract supplier had 90% or more of the market.
  - In 72% of the competitions, no contract suppliers had more than half of the market.
  - Wheelchairs had the least market concentration in Round 2. The top wheelchair supplier had less than 25% of the market in 43 of 100 total competitions.
  - NPWT had the highest market concentration. The top NPWT supplier had 90% of the market in 47 of the 100 competitions.

- Some contract suppliers had a substantial portion of total Round 2 and National Mail-Order Program market, which totaled over \$1 billion in 2014.
- 11% (94 of 834) of contract suppliers did not furnish any items in 2014.
- The 94 inactive suppliers had contracts in 446 competitions.
- 19 of the 94 inactive suppliers were terminated by CMS and 23 withdrew from CBP.
- 82 of the 94 inactive suppliers had a higher composite bid compared to other contract suppliers in the same competition. For 56 of the inactive contract suppliers, this difference was more than 10%.
- 39% (324 of 834) of contract suppliers were partially inactive. They were inactive in at least one of the competitions but were very active in other markets.
- CMS stated that they monitor competitions with one or a few active contract suppliers with greater focus.
- CMS does not believe having just one or a few active contract suppliers have negatively impacted beneficiary access.
- Palmetto GBA conducts secret shopper calls quarterly and suppliers that were inactive were usually not in breach of contract. In some cases, these suppliers just had not received requests from beneficiaries or referral agents for CBP-covered items.
- Palmetto GBA found 8 inactive contracted suppliers that were in breach of their contract. Of the 8, 3 were brought up to compliance and five were terminated.
- CMS works with Competitive Acquisition Ombudsman and local competitive bidding liaisons to address potential issues.