

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICARE PAYMENTS FOR
ENTERAL NUTRITION**



Inspector General

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‡ A B S T R A C T

Category I enteral nutrition formulas represented \$201 million of the \$311 million in Medicare Part B payments for all enteral nutrition formulas in 2001. The Office of Inspector General (OIG) compared the amount Medicare reimburses for Category I enteral nutrition formulas (procedure code B4150) to prices available to the supplier community. We obtained 177 individual contract prices for Category I formulas through 1 national wholesaler, 1 group purchasing organization, and 1 supplier who negotiated contracts directly with 2 enteral nutrition formula manufacturers. We found that Medicare's reimbursement amount for Category I formulas (\$0.61 in 2001) exceeded median contract prices available to suppliers from the 3 sources reviewed by 70 to 115 percent. Median contract prices ranged from \$0.28 per unit to \$0.36 per unit. Individual contract prices for Category I formulas varied from a low of \$0.18 per unit to a high of \$0.86 per unit, yet the majority (75 percent) of individual contract prices were lower than \$0.42 per unit. OIG recommended that the Centers for Medicare & Medicaid Services (CMS) consider using its inherent reasonableness authority to reduce the Medicare reimbursement amount for Category I formulas. CMS agreed with our recommendation.

‡ E X E C U T I V E S U M M A R Y

OBJECTIVE

This inspection compared the amount Medicare reimburses for Category I enteral nutrition formulas (procedure code B4150) to prices available to the supplier community.

BACKGROUND

Medicare covers enteral nutrition therapy, commonly called tube feeding, for beneficiaries who cannot swallow due to a permanent medical problem or an impairment of long and indefinite duration. Medicare Part B coverage of enteral nutrition therapy is provided under the prosthetic device benefit for beneficiaries residing at home, or in a nursing facility when the stay is not covered by Medicare Part A. Medicare Part B payments for enteral nutrition formulas totaled more than \$311 million in calendar year 2001.

Medicare groups enteral nutrition formula products into seven codes, based on their composition. Category I formulas represented by code B4150 accounted for \$201 million of the \$311 million in Medicare Part B payments for all enteral nutrition formulas in 2001. Medicare reimbursement for Category I formulas was \$0.61 per 100 calories of formula in 2001.

While a wide variety of enteral nutrition formulas meets the criteria for inclusion in Category I, Medicare does not collect any information on the brands and types of formulas that are actually provided to Medicare beneficiaries when suppliers submit Category I formula claims for reimbursement.

Suppliers may purchase enteral nutrition formulas from sources such as wholesalers, group purchasing organizations, and directly from manufacturers. Prices charged to individual suppliers are often based on the volume of product purchased. In order to compare Medicare's reimbursement amount to prices available to suppliers, we obtained contract prices for Category I enteral nutrition formulas through one national wholesaler and through one group purchasing organization. We also obtained information on one supplier's contract prices that were negotiated directly with two enteral nutrition formula manufacturers.

We did not collect data from suppliers regarding any additional supplier costs related to furnishing enteral nutrition formula to Medicare

beneficiaries. Therefore, the median contract prices do not include these associated supplier costs.

To determine how much Medicare and its beneficiaries could save if the reimbursement amount for Category I formulas were set at prices available to suppliers, we calculated percentage differences between the medians of contract prices for Category I formulas and the Medicare reimbursement amount in 2001. We applied these percentage differences to 2001 Medicare Part B payments for Category I formulas in order to compute potential program savings.

Since completion of our evaluation, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) was signed into law. In part, the Act directs the Secretary of the Department of Health and Human Services to establish a program for competitive acquisition of durable medical equipment and supplies. This program has yet to be developed and implemented; however, it could reform how Medicare reimburses for enteral nutrition, equipment and supplies.

FINDINGS

Medicare's reimbursement amount for Category I enteral nutrition formulas exceeded the median of purchase prices reviewed by as much as 115 percent. An analysis of 177 contract prices available to suppliers from the 3 sources reviewed indicated that the Medicare payment amount for Category I formulas exceeded median contract prices by 70 to 115 percent. The lowest median contract price for Category I formulas was obtained by the supplier who negotiated prices directly with manufacturers. If Medicare's payment amount for these formulas had been set at the median of purchase prices reviewed, we estimate that the program and its beneficiaries could have saved over \$82 million in calendar year 2001.

Individual contract prices for Category I formulas varied widely, from a low of \$0.18 per unit to a high of \$0.86 per unit. The majority (75 percent) of individual contract prices were lower than \$0.42 per unit. At present, Medicare is unable to determine whether most beneficiaries are using the lower-priced or higher-priced products because the program does not collect any specific information on the products that are provided to beneficiaries when suppliers submit claims for Category I formulas.

RECOMMENDATION

The findings of this report suggest that the supplier community obtains Category I enteral nutrition formula products at prices that are lower than Medicare's reimbursement amount. If Medicare's reimbursement amount had been based more closely on these prices, the program and its beneficiaries could have realized savings.

The Centers for Medicare & Medicaid Services (CMS) had attempted to reduce Medicare payments for enteral nutrition formulas through the use of its inherent reasonableness authority. However, Congress suspended the use of the inherent reasonableness authority in the 1999 Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act before payment reductions could be implemented. In December 2002, CMS published an interim final rule on the use of inherent reasonableness authority. This rule, which became effective in February 2003, allows CMS contractors to raise or lower Medicare payment amounts for medical equipment and supplies by 15 percent in any given year without a formal rulemaking process.

We believe that continued CMS attention to Medicare Part B payments for Category I enteral nutrition formulas is warranted. Since CMS now has the authority to implement inherent reasonableness reductions, we recommend that CMS:

Consider using its inherent reasonableness authority to reduce the Medicare reimbursement amount for Category I enteral nutrition formulas.

CMS may want to begin an inherent reasonableness review by collecting information from Medicare suppliers to identify the specific Category I enteral nutrition formulas that suppliers provide to Medicare beneficiaries. CMS may also want to collect information from suppliers to determine suppliers' purchase costs for the specific formulas used by Medicare beneficiaries.

CMS agreed with our recommendation that they consider using inherent reasonableness authority to reduce the reimbursement amount for Category I formulas. CMS noted that it will not be able to initiate inherent reasonableness reviews until its contractor develops written procedures for conducting these reviews according to the statute and regulation.

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‡ I N T R O D U C T I O N

OBJECTIVE

This inspection compared the amount Medicare reimburses for Category I enteral nutrition formulas (procedure code B4150) to prices available to the supplier community.

BACKGROUND

Medicare Coverage of Enteral Nutrition Therapy

Medicare covers enteral nutrition therapy, commonly called tube feeding, for beneficiaries who cannot swallow due to a permanent medical problem or an impairment of long and indefinite duration.¹ Medicare Part B coverage of enteral nutrition therapy is provided under the prosthetic device benefit for beneficiaries residing at home, or in a nursing facility when the stay is not covered by Medicare Part A.

Enteral nutrition formulas are available in liquid or powder form (which is reconstituted with water). The liquid solution is administered through a tube, which is threaded through the patient's nose or a surgical opening that leads directly to the stomach or intestine. Liquid enteral nutrition formulas are packaged in cans and pre-filled sterile containers. A canned formula is emptied into a plastic bag or container, which is then connected to tubing and hung from an IV pole for administration. Unlike cans, the pre-filled sterile systems do not require transfer of formula from one container to another. A pre-filled container is "spiked" with tubing and then hung from an IV pole for administration.

Medicare groups enteral nutrition formula products into seven classes, based on their composition. Products falling within these classes are identified by one of seven Healthcare Common Procedure Codes (HCPCs) for reimbursement purposes. A wide variety of enteral nutrition formulas are grouped under Category I, including Boost®, Ensure®, Isosource®, and Nutren®. However, Medicare carriers do not collect any information on the manufacturer, brand name, type, and size of packaging of the individual enteral nutrition formulas that they cover under the Category I procedure code.

¹ Centers for Medicare & Medicaid Services, Medicare Coverage Issues Manual, Section 65-10.

Medicare Part B Payments for Enteral Nutrition Formulas

Medicare Part B payments for enteral nutrition formulas totaled more than \$311 million in 2001. Category I enteral nutrition formulas represented by code B4150 (defined in Table 1) accounted for \$201 million, or almost two-thirds, of total formula allowances. Code B4150 ranked ninth in a listing of durable medical equipment and supply codes with the highest Medicare allowances in the last quarter of 2001.²

Table 1. Procedure Code B4150		
HCPC	Code Description	2001 Medicare Allowances
B4150	Enteral formulae; Category I; semi-synthetic intact protein/protein isolates, administered through an enteral feeding tube, 100 calories = 1 unit	\$201,066,767

Sources: American Medical Association, *HCPCS 2002* publication; CMS' National Claims History File

Part B claims for enteral nutrition formulas are processed and paid by four durable medical equipment regional carriers (DMERCs). Medicare carriers use national fee schedule amounts to reimburse claims for enteral nutrition formulas.

Medicare reimbursement for enteral nutrition formulas is based on the number of calories of formula provided to a patient, not the volume of the product. Reimbursement amounts are for one unit, defined as 100 calories, of formula. For example, if a patient is prescribed 1,000 calories of formula per day, Medicare reimbursement is based on 10 units of formula per day. Medicare reimbursement for Category I formulas was \$0.61 per unit in 2001.

Efforts to Reduce Medicare Payments for Enteral Nutrition Formulas

In 1998, DMERCs proposed a 16 percent reduction in Medicare's allowance for Category I formulas using the Centers for Medicare & Medicaid Services's (CMS's) revised inherent reasonableness authority. This authority allowed DMERCs to adjust Medicare payments up or down by a maximum of 15 percent per year for medical equipment and supplies without going through a formal rulemaking process. An incremental approach would have resulted in a 15 percent reduction in the first year of implementation and an additional 1 percent reduction

² *The SADMERC Abstract*, Volume VIII, Palmetto GBA, June 14, 2002 (Internal CMS document).

in the second year. The proposed reductions were based on DMERCs' surveys of retail prices for items "that they suspected had excessive Medicare payment rates,"³ including Category I formulas. However, Congress suspended the use of the inherent reasonableness authority in the 1999 Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act before payment reductions could be implemented. This provision required the U.S. General Accounting Office (GAO) to complete a study of the potential effects of using inherent reasonableness measures, and required CMS to issue a final rule that responded to the GAO report before CMS could use this authority to reduce Medicare payments.

The GAO report (issued in July 2000) indicated that Medicare allowances for some items of durable medical equipment may be substantially higher than the prices available in retail outlets. However, GAO questioned the DMERCs' retail survey results for enteral nutrition formulas, noting, "the DMERCs did not survey the types of enteral nutrition formulas and the packaging systems considered most appropriate and generally used for tube feeding."⁴ GAO concluded that retail survey data alone did not provide sufficient evidence to adjust the Medicare allowance amount for Category I formulas. CMS published an interim final rule on the use of inherent reasonableness authority in December 2002. This rule, which became effective in February 2003, limits payment adjustments to a 15 percent increase or decrease in any given year and also states that proposed payment adjustments of less than 15 percent do not provide "a sufficient basis" for the use of this inherent reasonableness authority.

Enteral nutrition formulas and associated equipment and supplies were also included in the first round of a CMS competitive bidding demonstration in Polk County, Florida from October 1999 through September 2001. This project aimed to demonstrate how competition among suppliers could reduce Medicare payments for some medical equipment and supplies. Competitive bidding demonstration allowances for six of the seven enteral formula HCPCs were an average of 9.1 percent lower than fee schedule rates. The demonstration allowance for Category I formulas was \$0.56 – an amount that is 8.2 percent lower than the national fee schedule amount.

³ U.S. General Accounting Office, "Use of Revised 'Inherent Reasonableness' Process Generally Appropriate," GAO/HEHS-00-79, July 2000, p.4.

⁴ *Ibid*, p.21

Medicare Prescription Drug, Improvement, and Modernization Act of 2003

Since completion of our evaluation, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) was signed into law (Public Law 108-173). In part, the Act directs the Secretary of the Department of Health and Human Services (HHS) to establish a program for competitive acquisition of durable medical equipment and supplies. This program, which will be phased in beginning in 2007, will replace fee schedules for covered items. The HHS Secretary is authorized to exempt items and services where competitive acquisition would not likely result in significant savings. Because this program has yet to be developed and implemented, it is premature to speculate about its impact on reimbursement for enteral nutrition and supplies; however, it bears noting that competitive acquisition could reform how Medicare reimburses for enteral nutrition, equipment, and supplies.

Supplier Acquisition Costs for Enteral Nutrition Formulas

Suppliers may purchase enteral nutrition formulas from sources such as wholesalers, group purchasing organizations, and directly from manufacturers. Wholesalers purchase large quantities of medical equipment and supplies at discounted rates from manufacturers and sell these products to suppliers. A group purchasing organization uses the combined buying power of its members to negotiate advantageous prices for medical equipment and supplies from manufacturers. Members of the group purchasing organization then purchase the products they need from the manufacturers or from wholesalers that accept the negotiated prices. Suppliers may also obtain enteral nutrition formulas directly from manufacturers. Prices charged to individual suppliers are often based on the volume of the product purchased.

METHODOLOGY**Sources of Contract Prices for Enteral Nutrition Formulas**

We obtained contract prices for Category I enteral nutrition formula products offered through a national wholesaler and a group purchasing organization. These contracts were with four enteral nutrition formula manufacturers – Mead Johnson, Nestlé, Novartis, and Ross. The wholesaler is one of the largest distributors of medical and surgical products in the United States and serves more than 85,000 customers. The group purchasing organization serves over 2,300 non-hospital health care providers across the Nation. We also obtained information

on one supplier’s contract prices that the supplier negotiated directly with two enteral formula manufacturers – Novartis and Ross.

The contracts included prices for many different types of enteral nutrition formulas, including liquid formulas packaged in 250 milliliter (mL) and 1000 mL cans, 1000 mL and 1500 mL pre-filled containers, and 237 mL Tetra Brik Paks®. Contracts also included prices for powdered formulas packaged in 1-pound and 4.5-pound cans.

Comparing Contract Prices to Medicare Payment Amount

The 177 individual contract prices reviewed were listed as “per case” or “per unit” prices. Medicare’s reimbursement amount for Category I enteral nutrition products is for 100 calories of formula. As shown in the example in Table 2 below, in order to compare contract prices to Medicare’s reimbursement amount, we converted each contract price into a price per 100 calories of formula. We researched manufacturer literature for each enteral nutrition formula product to determine the number of calories in a case or unit of product. We determined the price per calorie by dividing the contract price of the case or unit of product by the number of calories in the case or unit. We multiplied the product’s price per calorie by 100 to determine the contract price per 100 calories.

Table 2. Calculation of Contract Price per 100 Calories				
A	B	C	D	E
Contract Price per Case	Cans per Case	Calories per Can	Calories per Case B*C	Contract Price per 100 Calories (A/D)*100
\$19.00	24	300	7200	\$0.26

Source: Review of Contract Prices, Office of Evaluation and Inspections, 2003.

Note: Currency figures in the table have been rounded.

Calculating Potential Medicare Savings

We calculated how much Medicare and its beneficiaries would save if the reimbursement amount for Category I formulas were set at the median of purchase prices reviewed. We determined the percentage difference in prices for each source by subtracting the median of contract prices for Category I formulas from Medicare’s national reimbursement amount in 2001 (\$0.61) and then dividing this number by Medicare’s reimbursement amount. We multiplied these percentage differences by total Medicare Part B payments for Category I formulas in 2001 in order to compute potential program savings. Medicare allowance data were obtained from CMS’s National Claims History File.

I N T R O D U C T I O N

The data used to calculate potential Medicare and beneficiary savings are presented in Appendix A.

Limitations of Contract Price Data

We did not collect data from suppliers regarding any additional supplier costs related to furnishing enteral nutrition formula to Medicare beneficiaries. Therefore, the median contract prices do not include these associated supplier costs. The estimates of potential program savings presented in the findings of this report would be lower if median contract prices had included associated supplier costs.

‡ FINDINGS

Medicare’s reimbursement amount for Category I enteral nutrition formulas exceeded the median of purchase prices reviewed by as much as 115 percent.

An analysis of contract prices available to suppliers from one wholesaler and one group purchasing organization, and contract prices negotiated by one supplier directly with enteral

nutrition formula manufacturers indicated that the Medicare payment amount for Category I formulas exceeded median contract prices by 70 to 115 percent. Of the three sources reviewed, the supplier who negotiated prices directly with manufacturers obtained the lowest median contract price for Category I formulas.

Individual contract prices for Category I formulas varied widely, from a low of \$0.18 per unit to a high of \$0.86 per unit. Contract prices for only three products exceeded the Medicare reimbursement amount of \$0.61 per unit. Seventy-five percent of individual contract prices were lower than \$0.42 per unit. If Medicare’s payment amount for these formulas had been set at the median of purchase prices reviewed, we estimate that the program and its beneficiaries could have saved over \$82 million in calendar year 2001. The actual savings to Medicare and its beneficiaries would likely be lower than the estimate of potential savings, since this estimate does not account for any additional supplier costs related to enteral nutrition formulas. Table 3 presents a summary of our comparison of contract prices to Medicare’s payment amount and our estimates of potential program savings.

Contract Price Source	Median Source Price Per Unit	Range of Prices Per Unit	Medicare Reimbursement Compared to Median Source Price	Potential Annual Medicare and Beneficiary Savings
Medicare National Fee Schedule	\$0.61	NA	NA	NA
Group Purchasing Organization	\$0.36	\$0.18 to \$0.81	71% Higher	\$83,591,036
Wholesaler	\$0.34	\$0.18 to \$0.86	77% Higher	\$87,531,798
Supplier Contracts with Manufacturers				
30+ cases of product/month	\$0.28	\$0.19 to \$0.57	115% Higher	\$107,587,201
10-29 cases of product/month	\$0.29	\$0.19 to \$0.60	108% Higher	\$104,225,101
1-9 cases of product/month	\$0.36	\$0.19 to \$0.72	70% Higher	\$82,898,839

Source: Review of Contract Prices, Office of Evaluation and Inspections, 2003.

Note: All figures in the table have been rounded.

F I N D I N G S

Members of one group purchasing organization were able to obtain Category I formulas for a median price of \$0.36 per unit.

The group purchasing organization contracts we reviewed contained prices for 88 individual Category I enteral nutrition formulas. We found that suppliers who are members of this group purchasing organization were able to purchase Category I formulas for a median contract price of \$0.36 per unit.

The group purchasing organization's contract prices for 86 of 88 individual formula products ranged from \$0.18 per unit for Meritene® powdered formula to \$0.48 per unit for Resource® Just for Kids with Fiber – a pediatric formula packaged in Tetra Brik® Paks. Medicare's reimbursement amount was 26 percent to 231 percent higher than individual product prices available to the group purchasing organization members. For two products, contract prices exceeded Medicare's reimbursement amount. Portagen® powdered formula was priced at \$0.81 per unit; and Introlite® – a half-calorie liquid formula used to introduce tube feeding – was priced at \$0.74 per unit.

Suppliers were able to obtain Category I formulas from one wholesaler for a median price of \$0.34 per unit.

We arrayed wholesale contract prices for 41 individual Category I enteral nutrition formulas and found that suppliers were able to obtain these products for a median contract price of \$0.34 per unit, compared to the Medicare payment amount of \$0.61 per unit.

The wholesaler's contract prices for 40 of 41 individual formula products ranged from \$0.18 per unit for a standard, canned, tube-feeding formula called Isosource® to \$0.49 per unit for Glytrol® – a formula for patients with hyperglycemia – in pre-filled sterile containers. Medicare's payment amount of \$0.61 per unit was 25 percent to 235 percent higher than these wholesale contract prices. At \$0.86 per unit, a specialty powdered formula called Portagen® was the only product with a wholesale contract price that exceeded the Medicare payment amount.

One supplier was able to purchase Category I formulas for a median price of as low as \$0.28 per unit by negotiating directly with formula manufacturers.

We reviewed contracts for enteral nutrition products that one supplier negotiated directly with two formula manufacturers. Rather than listing a single contract price, one of the two manufacturers provided the supplier with three contract prices for each product. The three contract prices were based on the number of cases of the product the

F I N D I N G S

supplier ordered in 1 month. The larger the volume of formula purchased per month, the lower the per unit contract price (see Table 3). If the supplier purchased one to nine cases of a particular Category I formula each month, it paid a median price of \$0.36 per unit. For 10 to 29 cases each month, the supplier paid \$0.29 per unit. For 30 or more cases of a Category I formula each month, the supplier paid \$0.28 per unit.

At 1 to 9 cases per month, manufacturers' contract prices for 46 of 48 individual formula products ranged from \$0.19 per unit for Meritene® powdered formula to \$0.58 per unit for a canned pediatric product called Pediasure® Enteral Formula. Medicare's reimbursement amount was 6 percent to 218 percent higher than these individual product prices. Contract prices for two products – Introlite® and Pediasure® Enteral Formula with Fiber – exceeded Medicare's reimbursement amount. At 10 to 29 cases per month and 30 or more cases per month, all of the manufacturers' contract prices were lower than the Medicare payment amount of \$0.61 per unit.

RECOMMENDATION

The findings of this report suggest that the supplier community obtains Category I enteral nutrition formula products at prices that are lower than Medicare's reimbursement amount. If Medicare's reimbursement amount had been based more closely on these prices, the program and its beneficiaries could have realized savings.

CMS had attempted to reduce Medicare payments for enteral nutrition formulas through the use of its inherent reasonableness authority. However, Congress suspended the use of the inherent reasonableness authority in the 1999 Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act before payment reductions could be implemented. In December 2002, CMS published an interim final rule on the use of inherent reasonableness authority. This rule, which became effective in February 2003, allows CMS contractors to raise or lower Medicare payment amounts for medical equipment and supplies by 15 percent in any given year without a formal rulemaking process.

We believe that continued CMS attention to Medicare Part B payments for Category I enteral nutrition formulas is warranted. Since CMS now has the authority to implement inherent reasonableness reductions, we recommend that CMS:

Consider using its inherent reasonableness authority to reduce the Medicare reimbursement amount for Category I enteral nutrition formulas.

CMS may want to begin an inherent reasonableness review by collecting information from Medicare suppliers to identify the specific Category I enteral nutrition formulas that suppliers provide to Medicare beneficiaries. CMS may also want to collect information from suppliers to determine suppliers' purchase costs for the specific formulas used by Medicare beneficiaries.

Agency Comments

CMS agreed with our recommendation that it consider using inherent reasonableness authority to reduce the reimbursement amount for Category I formulas. CMS noted that it will not be able to initiate inherent reasonableness reviews until its contractor develops written procedures for conducting these reviews according to the statute and regulation.

Calculation of Potential Savings for Category I Enteral Nutrition Formulas

1. To determine percentage differences between contract prices for Category I enteral nutrition formulas and Medicare’s reimbursement amount, we subtracted the median price for each source from the Medicare reimbursement amount. We then divided this number by the Medicare reimbursement amount.
2. To calculate potential Medicare and beneficiary savings by price source, we multiplied total Medicare Part B allowances (\$201,066,767) for Category I enteral nutrition formulas in 2001 by the percentage differences.


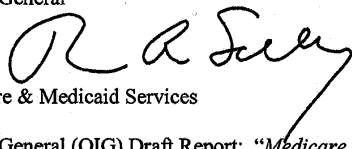
Calculation of Potential Savings for Category I Enteral Nutrition Formulas					
A	B	C	D	E	F
Contract Price Source	Median Source Price per 100 Calories	Medicare Reimbursement per 100 Calories	Median Source Price Compared to Medicare Reimbursement ((C-B)/C)*100	2001 Medicare Part B Allowances for Category I Formulas	Potential Annual Medicare and Beneficiary Savings D*E
Group Purchasing Organization	\$0.36	\$0.61	41.57% Lower	\$201,066,767	\$83,591,036
Wholesaler	\$0.34	\$0.61	43.53% Lower	\$201,066,767	\$87,531,798
Supplier Contracts with Manufacturers					
30+ cases of product per month	\$0.28	\$0.61	53.51% Lower	\$201,066,767	\$107,587,201
10-29 cases of product per month	\$0.29	\$0.61	51.84% Lower	\$201,066,767	\$104,225,101
1-9 cases of product per month	\$0.36	\$0.61	41.23% Lower	\$201,066,767	\$82,898,839

Sources: Review of Contract Prices, Office of Evaluation and Inspections, 2003; CMS's National Claims History File

Note: Median source prices, percentages, and potential savings amounts in the table have been rounded.

▶ A P P E N D I X ~ B

Centers for Medicare & Medicaid Services' Comments

	DEPARTMENT OF HEALTH & HUMAN SERVICES	Centers for Medicare & Medicaid Services
DATE: DEC 15 2003	<i>Administrators</i> Washington, DC 20201 RECEIVED DEC 23 11:15 AM OFFICE OF INSPECTOR GENERAL	
TO: Dara Corrigan Acting Principal Deputy Inspector General Office of Inspector General		
FROM: Thomas A. Scully Administrator Centers for Medicare & Medicaid Services		
SUBJECT: Office of Inspector General (OIG) Draft Report: "Medicare Payments for Enteral Nutrition" (OEI-03-02-00700)		
<p>Thank you for the opportunity to review and comment on the OIG draft report, "Medicare Payments for Enteral Nutrition." The OIG draft report details a comparison of the amount Medicare reimburses for Category I enteral nutrition formulas to prices available to the supplier community. The OIG obtained contract prices for Category I formulas through one national wholesaler and one group purchasing organization. Information was also obtained on one supplier's contract prices that were negotiated directly with two enteral formula manufacturers. According to the OIG, Medicare's reimbursement amount for Category I formulas exceeded median contract prices available to suppliers from the three sources reviewed by 70 to 115 percent. The OIG concluded that Medicare and its beneficiaries could have substantial savings if the reimbursement amount had been based more closely on the medians of purchase prices reviewed. As a result of this finding, the OIG is recommending that the Centers for Medicare & Medicaid Services (CMS) review the appropriateness of the current reimbursement amount for Category I enteral nutritional formulas and consider using the inherent reasonableness (IR) authority to reduce the amount Medicare reimburses for enteral nutrition formulas.</p>		
<p>We agree with the OIG's recommendation that CMS should consider using IR to reduce the Medicare reimbursement amount for Category I enteral nutrition formulas. However, at this time, we are not able to begin an IR review for these items. We are working with a contractor to develop written procedures for conducting IR reviews in a way that will satisfy the requirement in the statute and regulation which state valid and reliable data be used in making IR determinations. Once these procedures are finalized, we will be able to consider which items should be reviewed and in which order we should review them.</p>		
<p>The cost of enteral nutrition is included in the skilled nursing facilities' prospective payment system. This payment system encourages providers to make prudent decisions.</p>		

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It is in their best interest to keep their costs down. The CMS supports action that encourages providers to review their purchasing decisions.

‡ A C K N O W L E D G M E N T S

This report was prepared under the direction of Robert A. Vito, Regional Inspector General for Evaluation and Inspections in the Philadelphia Regional Office, and Linda M. Ragone, Deputy Regional Inspector General. Other principal Office of Evaluation and Inspections staff who contributed include:

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