



Highlights of [GAO-10-27](#), a report to congressional requesters

Why GAO Did This Study

In 2007, Medicare spent \$8.3 billion for durable medical equipment (DME) and related supplies. To reduce spending, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) required that the Centers for Medicare & Medicaid Services (CMS) phase in, with several rounds of bidding, a large-scale competitive bidding program (CBP) for certain DME and other items. DME suppliers began bidding in round 1 of the CBP on May 15, 2007. After contracts were awarded, the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA), was enacted on July 15, 2008. Because of numerous concerns MIPPA delayed the program, terminated supplier contracts, and required CMS to begin the CBP round 1 rebid in 2009. GAO was asked to report on (1) the results of CBP round 1, (2) the major challenges CMS had in conducting CBP round 1, and (3) the steps CMS has taken to improve future CBP rounds. GAO reviewed CMS data and relevant laws and regulations, and interviewed officials from CMS and its contractors, and DME suppliers and professional associations.

What GAO Recommends

GAO recommends that if CMS decides to conduct reviews of disqualified bids, CMS should notify all suppliers of this process, giving suppliers equal opportunity for such reviews and clearly indicate how to request them. CMS agreed with GAO's recommendation.

[View GAO-10-27](#) or [key components](#).

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MEDICARE

CMS Working to Address Problems from Round 1 of the Durable Medical Equipment Competitive Bidding Program

What GAO Found

About a quarter of the bids submitted during CBP round 1 resulted in awarded contracts. The contracts were in effect until terminated by MIPPA on July 15, 2008. Of the 6,374 bids submitted by 1,010 suppliers, half were disqualified before competing on price. Bids were most often disqualified for missing financial documentation or noncompliance with accreditation requirements. In nearly two-thirds of CBP round 1's price competitions—in which suppliers submitted bids to deliver items for a specific product category within a specific competitive bidding area (CBA)—the number of suppliers decreased by at least half. The largest decreases in suppliers were in the Miami CBA. CMS estimated that the reduction in Medicare payments for items acquired as a result of CBP round 1 would have averaged 26 percent when compared to payments under the Medicare fee schedule.

CBP's round 1 presented several challenges to suppliers, including poor timing and lack of clarity in bid submission information, a failure to inform all suppliers that losing bids could be reviewed, and an inadequate electronic bid submission system. CMS provided some clarifying information about bidding after the bid window opened, repeatedly extended the bid window deadlines, and provided updated guidance to bidders throughout the bid window. The information CMS provided to suppliers about bidding requirements was sometimes unclear and inconsistent, particularly regarding financial documentation. CMS did not effectively notify suppliers of its postbidding review process. Because some suppliers were not aware of the review process, they missed the opportunity to have their disqualified bids reviewed. CMS found that some bids had been incorrectly disqualified. Finally, several problems with the electronic bid submission system, including data losses from automated logouts and unscheduled downtimes, made it difficult for some suppliers to submit bids.

CMS has taken several steps to improve the bidding process for the round 1 rebid and subsequent rounds of the CBP. CMS is implementing MIPPA provisions to notify suppliers of missing financial documentation and create a CBP ombudsman. It has reduced financial documentation requirements and revised the request for bid instructions to make it clearer and more understandable. It is also developing a new electronic bidding submission system, the Durable Medical Equipment, Prosthetics, Orthotics, and Supplies bidding system (DBidS), which the agency claims will address the deficiencies of the system used for round 1. Bidding for the round 1 rebid began in late October 2009.

The CBP has the potential to produce considerable benefits, including reducing overall Medicare spending for DME and limiting potential fraud through increased scrutiny of suppliers. Although challenges may be expected for any new program, problems occurred in round 1 because of poor communication by CMS and an inadequate bid submission system.