GAO Report Questions Rebates to Hospitals

An Accurate Accounting of Those GPO Rebates Is at Issue

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Do hospitals have to worry about a new investigative front being opened by the Medicare program? That is the threat posed by a report from the Government Accountability Office (GAO), which recommends that the Centers for Medicare and Medicaid Services (CMS) check to see whether hospitals are accurately reporting rebates they receive from group purchasing organizations (GPOs). Medicare rules require hospitals to report those rebates as income. But the GAO report, issued in late November, indicates that the CMS hardly ever checks to see whether GPO rebates are reported accurately.

Accurate reporting is important because the CMS bases its Medicare hospital reimbursement formula in part on how much income hospitals receive from nonfederal sources. GPO rebates are one source of such income, so there is at least the possibility that the CMS is over-reimbursing some or many hospitals.

A CMS spokesman did not respond to an email asking whether the agency plans to audit hospital Medicare cost reports to check the accuracy of GPO rebate information.

GPOs receive administrative fees—call them rebates—from suppliers of everything from pharmaceuticals to medical devices to Q-tips. A significant portion of those rebates is passed on to hospitals. The GAO report raises two questions. The first has to do with hospital reporting to Medicare. The second asks whether the GPOs’ dependence on those fees, part of which go toward GPO expenses, profits, etc., provides an incentive for GPOs to settle for higher prices from suppliers, such as brand and generic drug manufacturers.

As to the accuracy of hospital reporting of rebates received, there is little evidence one way or the other. The GAO report was based on data from the five largest national GPOs by purchasing volume: Premier, Novation, MedAssets, HealthTrust Purchasing Group, and Amerinet. Leisa Kennedy, Director of Executive Communications at Novation, says her company supports adequate oversight to ensure correct reporting across all hospitals. “We also believe it’s important to note that the 2005 HHS [Health and Human Services] audits found that the vast majority of hospitals’ Medicare cost reports did correctly account for all net revenues received through GPO agreements.”

The HHS Office of the Inspector General (OIG) conducted two audits in 2005. One, involving 21 hospitals, found that 78% of rebate revenue was reported correctly. The second audit found that 96% of rebate money was recorded correctly despite reporting problems at six of 38 hospitals.

Five Democratic members of the House of Representatives requested the GAO report. In addition to concerns about possible overcompensation of hospitals by Medicare, they suspected GPO contracting practices might be contributing to drug shortages and a subsequent reliance on compounding pharmacies. They requested that the GAO do the report just after the New England Compounding Center sold contaminated methylprednisolone acetate in 20 states that sickened hundreds of people and killed 64.

Drug shortages could result from a GPO issuing a sole-source contract to one manufacturer for a particular pharmaceutical. The GAO report noted that three GPOs reported sole-source contracting for branded drugs and commodities, and four GPOs reported sole-source contracting for generic drugs, including injectables. Another potential cause of a drug shortage could be a contract that bundles products. Several GPOs reported bundling of related commodities, and one GPO reported bundling related branded pharmaceuticals.

Novation’s Kennedy notes that a recent survey conducted under the auspices of the American Hospital Association and the Association for Healthcare Resource & Materials Management found hospitals are highly satisfied with their GPOs. The survey found that GPOs provide 77% and 75% of hospitals’ generic and brand-name drugs, respectively. The survey did not ask whether the hospital execs were satisfied with that pricing specifically. Eighty-eight percent of respondents strongly agreed or agreed with the “cost-saving role” played by their GPO in general when it comes to lowering prices of all products.

Actually, the administrative fees that GPOs get from suppliers and then rebate to hospitals are statistically rather small. According to the GAO, during fiscal year 2012, the five largest GPOs reported a total purchasing volume of $130.7 billion. Their fees totaled $2.3 billion that year, and nearly 70% of these fees were passed on to GPO customers or owners. For example, average fees for branded drugs ranged from 0.86% to 2.08%, while average fees for generic drugs ranged from 1.31% to 3.62%.

It is perfectly legal for hospitals to pocket rebates from GPOs, but they must report that income to Medicare. Some hospitals undoubtedly need bookkeeping help in that regard, if the dusty OIG reports are to be believed. But Medicare has its hands full chasing down much larger sources of lost federal dollars, some of it siphoned off by fraud. And Senator Ed Markey (D-Massachusetts), the leader behind the GAO request in 2012, when he was in the House, is now ensconced in the Republican-controlled Senate. Upon release of the GAO report, Markey put out a press release that gave no indication he planned to follow up. So this is a GAO report unlikely to prompt remedial action of any significance.

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