

Bobby Jindal
GOVERNOR



Alan Levine
SECRETARY

State of Louisiana
Department of Health and Hospitals
Office of the Secretary

January 1, 2010

The Honorable Jim Tucker, Speaker
Louisiana House of Representatives
State Capital
P.O. Box 94062
Baton Rouge, LA 70804

Dear Representative Tucker:

In response to Senate Resolution No. 139 (SR 139) of the 2009 Regular Session, the Louisiana Department of Health and Hospitals (DHH) submits the enclosed report. The resolution requests that DHH study and evaluate electronic negotiating technology for all categories of purchasing within the department.

DHH is available to discuss the enclosed report and recommendations with you at your convenience. Please contact Jerry Phillips, DHH Medicaid director, at (225) 342-3891 with any questions or comments that you may have.

Sincerely,

A handwritten signature in black ink that reads "Alan Levine".

Alan Levine
Secretary

Enclosures

Bobby Jindal
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SECRETARY

State of Louisiana
Department of Health and Hospitals
Office of the Secretary

January 1, 2010

The Honorable Joel T. Chaisson II, President
Louisiana Senate
State Capital
P.O. Box 94183
Baton Rouge, LA 70804

Dear Senator Chaisson:

In response to Senate Resolution No. 139 (SR 139) of the 2009 Regular Session, the Louisiana Department of Health and Hospitals (DHH) submits the enclosed report. The resolution requests that DHH study and evaluate electronic negotiating technology for all categories of purchasing within the department.

DHH is available to discuss the enclosed report and recommendations with you at your convenience. Please contact Jerry Phillips, DHH Medicaid director, at (225) 342-3891 with any questions or comments that you may have.

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State of Louisiana
Department of Health and Hospitals
Office of the Secretary

January 1, 2010

The Honorable Willie Mount, Chair
Senate Health and Welfare Committee
State Capital
P.O. Box 94183
Baton Rouge, LA 70804

Dear Senator Mount:

In response to Senate Resolution No. 139 (SR 139) of the 2009 Regular Session, the Louisiana Department of Health and Hospitals (DHH) submits the enclosed report. The resolution requests that DHH study and evaluate electronic negotiating technology for all categories of purchasing within the department.

DHH is available to discuss the enclosed report and recommendations with you and the members of the Senate Health and Welfare Committee. Please contact Jerry Phillips, DHH Medicaid director, at (225) 342-3891 with any questions or comments that you may have.

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Alan Levine
Secretary

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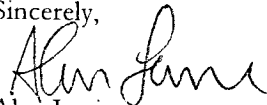
The Honorable Michael J. "Mike" Michot, Chair
Senate Finance Committee
State Capital
P.O. Box 94183
Baton Rouge, LA 70804

Dear Senator Michot:

In response to Senate Resolution No. 139 (SR 139) of the 2009 Regular Session, the Louisiana Department of Health and Hospitals (DHH) submits the enclosed report. The resolution requests that DHH study and evaluate electronic negotiating technology for all categories of purchasing within the department.

DHH is available to discuss the enclosed report and recommendations with you and the members of the Senate Finance Committee. Please contact Jerry Phillips, DHH Medicaid director, at (225) 342-3891 with any questions or comments that you may have.

Sincerely,


Alan Levine
Secretary

Enclosures

DEPARTMENT OF HEALTH AND HOSPITALS

EVALUATION OF
ELECTRONIC
NEGOTIATION
TECHNOLOGY FOR
MEDICAID PURCHASES

REPORT PREPARED IN RESPONSE TO SR 139
OF THE 2009 REGULAR SESSION

DECEMBER 2009

Contact:

Louisiana Department of Health and Hospitals
Jerry Phillips
Medicaid Director
428 N. 4th Street, 7th Floor, Baton Rouge, LA 70804
225-342-3891
jerry.phillips@la.gov

EXECUTIVE SUMMARY

During the 2009 Regular session, Senator Lydia P. Jackson requested an evaluation of the potential cost savings that might be realized by the Department employing electronic negotiation technologies and Medical Home Order Entry technologies for all categories within the department.

Electronic negotiation technology, also referred to as automated negotiation or 'e-procurement', involves the use of internet based software solutions to provide a coordination mechanism for cooperative and competitive sharing of information to determine pricing of an item or service for the benefit of a purchaser.

Areas where electronic negotiation technology might enable potential cost savings to Medicaid are in the procurement of certain goods such as durable medical equipment (DME) where expenditures for SFY09 totaled approximately \$39.4 million (Table 1). By facilitating online electronic negotiations between the Department and manufacturers to determine the true market value of various DME items, a cost savings might be realized.

According to discussions between DHH Legal and the Division of Administration staff in charge of State procurement and contracting, State procurement laws do not allow for reverse auctions via sealed bid. The current stance of DOA is that legislation would be required to conduct procurement by this method. In addition, rate setting through reverse auction for Medicaid would require rule making and CMS approval of a State Plan Amendment. Changes to the MMIS system and stakeholder buy-in would also have to be sought as we currently must negotiate rates with retailers to secure access.

Computerized Provider Order Entry (CPOE) is a process of electronic entry of instructions by a medical provider related to the treatment of patients communicated over a computer network to the medical staff or to the departments (pharmacy, laboratory or radiology) responsible for fulfilling the order. When paired with electronic health record (EHR) systems, Medical Decision Support tools, E-Prescribing software, and a Health Information Exchange (HIE), CPOE technology has the potential to improve patient outcomes and safety and decrease costs through a reduction of medical error and duplication of tests and treatments. Eligible providers, through the ARRA, may receive incentive payments that may be applied to the purchase of CPOE systems.

Whereas implementation of CPOE by Louisiana Medicaid Providers could provide cost savings to the State, CPOE is not a tool through which purchasing is conducted and would not relate to Department purchasing.

REPORT TO THE LEGISLATURE

CHARGE OF THE RESOLUTION

During the 2009 Regular session, Senator Lydia P. Jackson requested an evaluation of the potential cost savings that might be realized by the Department employing electronic negotiation technologies and Medical Home Order Entry technologies for all purchases.

1. ELECTRONIC NEGOTIATION TECHNOLOGY

BACKGROUND

Our understanding of the use of electronic negotiation technology, also referred to as automated negotiation or 'e-procurement', involves the use of internet based software solutions to provide a coordination mechanism for cooperative and competitive sharing of information to determine pricing of an item or service for the benefit of a purchaser.

Most commonly, electronic negotiation is conducted as a type of auction referred to as a reverse auction in which the traditional roles of buyers and sellers are reversed. In an ordinary auction (also known as a forward auction), buyers compete to obtain a good or service, and the price typically increases over time. In a reverse auction, sellers compete to obtain business from a single buyer through an open bidding process, and prices typically decrease over time.

Reverse auctions through electronic negotiation technologies has gained popularity as a result of the emergence of Internet-based online auction tools and have been utilized commonly in business arenas in what has been termed is called electronic trading hubs, also referred to as "trading hubs," "vortals," "eMarketplaces" and "E-Hubs" where computing power and internet technology is used to link producers, resellers, distributors and buyers together for transaction and other purposes.

POTENTIAL BENEFIT

Areas where electronic negotiation technology might enable Medicaid cost savings are in the rate setting of certain goods such as durable medical equipment (DME) where expenditures total for SFY09 totaled approximately \$39.4 million.

Table 1 lists the top 10 Medicaid DME categories by total payments in SFY 2009.

DME Categories	Total Payments
ENTERAL THERAPY, PUMPS & RELATED SUPPLIES	\$9,554,944
ORTHOTICS & PROSTHETICS	\$6,765,673
WHEELCHAIRS & ACCESSORIES	\$5,291,337
INCONTINENCE PRODUCTS	\$3,085,628
UROLOGICAL & OSTOMY SUPPLIES	\$2,380,585
RESPIRATORY CARE (OTHER THAN VENTS & OXYGEN)	\$1,804,526
MISCELLANEOUS EQUIPMENT & RELATED SUPPLIES	\$1,532,817
SKIN CARE, WOUND CARE & INFECTION CONTROL	\$1,387,093
OXYGEN, OXYGEN EQUIPMENT & RELATED SUPPLIES	\$1,179,293
TRACHEOSTOMY & SUCTION EQUIPMENT, RELATED SUPPLIES	\$1,158,858

TABLE 1. Top 10 DME categories by price in SFY09

Medicaid currently utilizes several methods to determine pricing for the various DME it procures. Some items are reimbursed at a percentage of the Medicare fee on file the year the code became payable. Pricing for other items, such as those with access issues are negotiated with the retailers to secure and ensure access. Payments for wheelchairs and accessories, which totaled \$5,291,337.37 in SFY09 (see Table 1), are currently based on a percentage of the items MSRP. The downside of these methodologies lies in the fact that the amount Medicaid pays for items is not necessarily based on a true market price. In some instances, the possibility exists for a DME provider to negotiate a price substantially less than MSRP from the manufacturer and sell the item for a substantial profit from the State. In certain high dollar items such as battery powered wheeled chairs, it was discovered that a DME provider was able to profit several thousands of dollars per chair by acquiring the chair for less than but being reimbursed at MSRP. Through the use of electronic negotiation technology (i.e. reverse auction), the State could potentially leverage its buying power through negotiations directly with the manufacturer to determine the true market price for a given item rather than relying on the MSRP. A distribution fee could then be added to the manufacturer's negotiated rates for DME to compensate the retailers for distribution services.

IMPEDIMENTS

According DHH Executive Counsel, DHH Legal had discussions with the Division of Administration staff in charge of State procurement and contracting and was informed that State procurement laws covering this situation do not allow for reverse auctions via sealed bid. The current stance of DOA is that legislation would be required to conduct State procurement by this method.

In addition, rate setting through reverse auction for Medicaid would require rule making and CMS approval of a State Plan Amendment. Changes to the MMIS system and stakeholder buy-in would also have to be sought as we currently must negotiate rates with retailers to secure access.

CONCLUSION

Electronic negotiation technologies might enable potential cost savings in the procurement of certain goods and services as well as durable medical equipment (DME) in Medicaid. However, State procurement laws relating to procurement currently do not allow for reverse auctions via sealed bid.

2. MEDICAL HOME ORDER ENTRY TECHNOLOGY

BACKGROUND

Our understanding of order entry technology, also referred to as Computerized Provider Order Entry (CPOE), is software that supports the electronic entry of instructions by a medical provider related to the treatment of patients communicated over a computer network to the medical staff or to the departments (pharmacy, laboratory or radiology) responsible for fulfilling the order. CPOE has the potential to decrease delays in order completion, to reduce errors related to handwriting or transcription, to allow order entry at point-of-care or off-site, provides error-checking for duplicate or incorrect doses or tests, and simplifies inventory and posting of charges.

When paired with electronic health record (EHR) systems, Medical Decision Support tools, E-Prescribing software, and Health Information Exchange (HIE), CPOE technology has the potential to improve patient outcomes and safety and decrease costs through a reduction of medical error and duplication of tests and treatments. Eligible providers, through the ARRA, may receive incentive payments that may be applied to the purchase of CPOE systems.

Whereas implementation of CPOE by Louisiana Medicaid Providers could provide cost savings to the State through decreased medical error and duplication, CPOE is not a tool through which orders for the purchasing of equipment are sent and does not relate to Department purchases.

CONCLUSION

As the State moves forward in the adoption of electronic health records (EHR), Medical Decision Support and E-Prescribing systems, and a health information Exchange, CPOE technology may play a role in cost savings and improved patient outcomes.

BIBLIOGRAPHY

SR 139 OF THE 2009 REGULAR SESSION

SENATE RESOLUTION NO. 139

BY SENATOR JACKSON

A RESOLUTION

To urge and request the Department of Health and Hospitals to study and evaluate electronic negotiating technology and Medical Home Order Entry for all categories of purchasing within the department and if it is found that this technology can achieve cost savings to design a demonstration program which utilizes this technology.

WHEREAS, electronic negotiating technology allows transparency in market pricing and has become the "gold standard" of negotiating in over twenty-two industries; and

WHEREAS, this technology has also been found to encourage providers to innovate ways to deliver quality healthcare on a more efficient basis and has the possibility to lower supply chain and manufacturer costs while improving patient outcomes; and

WHEREAS, it is in the best interest of the state that this type of technology be studied to determine if the use of this technology would lead to reductions in health care costs while improving patient outcomes, reducing fraud and abuse, and facilitating the collection of quality clinical data.

THEREFORE, BE IT RESOLVED that the Senate of the Legislature of Louisiana does hereby urge and request the Department of Health and Hospitals to study and evaluate electronic negotiating technology for all categories of purchasing within the department and to submit a written report of the findings and conclusions of such study to the Senate Committee on Health and Welfare and the Senate Committee on Finance by January 1, 2010.

BE IT FURTHER RESOLVED that if the study conducted by the Department of Health and Welfare indicates that a cost savings can be achieved by the department with the use of electronic negotiation technology then the department shall design a demonstration program for the state of Louisiana which would be implemented to determine if cost savings and improved patient outcomes could be achieved in the state.

SR NO. 139

ENROLLED

BE IT FURTHER RESOLVED that the Department of Health and Hospitals shall submit to the Senate Committee on Health and Welfare and the Senate Committee on Finance the proposed demonstration program for approval.

BE IT FURTHER RESOLVED that a copy of this Resolution be transmitted to the secretary of the Department of Health and Hospitals.

PRESIDENT OF THE SENATE