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COMPTROLLER

OFFICE OF THE
NEW YORK STATE COMPTROLLER

DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY

DEPARTMENT OF HEALTH

MEDICAID PAYMENTS FOR DIABETIC TESTING SUPPLIES

Report 2008-S-123

AUDIT OBJECTIVE

The objective of our audit was to determine whether the Department of Health's Medicaid limits for diabetic testing supplies are excessive when compared to the limits for diabetic testing supplies used by similar health care programs.

AUDIT RESULTS - SUMMARY

For the five year period ended June 30, 2008, Medicaid spent approximately $267 million on diabetic testing supplies. We determined the Department of Health's (Department's) limits on diabetic testing supplies provided by the Medicaid program exceeded those of Medicare and a sample of ten other states. In fact, New York State's Medicaid program has the highest limits of all ten states we reviewed, allows more than double the amount of supplies Medicare allows, and allows more supplies than the average of the ten other states. If the Department had used the same limits as Medicare, the Medicaid program could have saved nearly $13.8 million on diabetic testing supplies during the five year period.

We recommend the Department consider lowering the number of diabetic testing supplies Medicaid recipients are allowed to obtain each year, modify claims processing controls to prevent Medicaid recipients from receiving excessive diabetic testing supplies, and investigate those recipients that appear to be receiving excessive diabetic testing supplies. Department officials indicated they will consult with the New York State Diabetes Prevention and Control Program regarding current Medicaid limits on diabetic testing supplies. Department officials also agreed to review and investigate the recipients we identified as receiving excessive supplies to determine if these discrepancies are an indication of abuse of the Medicaid program.

This report dated March 18, 2009, is available on our website at: http://www.osc.state.ny.us
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BACKGROUND

Diabetes is a major chronic disease in the United States. According to Department information, about 5 to 10 percent of all diabetics statewide are insulin-dependant due to a loss of insulin-producing cells in the pancreas. Insulin-dependant diabetics require daily insulin injections. The Department information characterizes the remaining 90 to 95 percent of diabetics as generally non-insulin dependant. These diabetics can control the disease by managing their weight, choosing healthier foods, exercising, and in some cases, taking insulin.

While there is no known cure for diabetes, it can be controlled by keeping the level of glucose (sugar) in the blood within a normal range. This is accomplished through testing of blood glucose levels. People who take insulin usually need to test blood glucose levels more often than those who do not take insulin. According to the American Diabetes Association and Department information, diabetics who use insulin generally should check blood glucose levels between four to seven times per day. For diabetics who do not use insulin, if the blood sugar is very well controlled, a diabetic may only need to check blood glucose levels once in a while. According to the American Academy of Family Physicians, many non-insulin dependent diabetics start by checking their blood glucose levels two times a day. After a few weeks, some are able to measure their

blood glucose level only two or three times a week.

Medicaid provides diabetic recipients with supplies for testing blood glucose levels. These supplies include test strips used to read blood sugar levels and lancets which are devices used to obtain a drop of blood for testing. In order for diabetics to test their blood sugar they must obtain a drop of blood by using a lancet; the test strip is then used to determine the blood sugar level.

For the five year period ended June 30, 2008, Medicaid spent approximately $254 million on test strips and $13 million on lancets provided to 364,697 Medicaid recipients.

AUDIT FINDINGS AND RECOMMENDATIONS

Diabetic Test Supply Limits

The Department's Medicaid limits allow recipients to receive up to 250 test strips per month (or 3,000 test strips per year) and 500 lancets per month (or 6,000 lancets per year). In addition, the Department's Medicaid limits allow recipients one early refill every two months so recipients don't run out of supplies at the end of a month. Therefore, Medicaid recipients in New York State are actually allowed to obtain 4,500 test strips and 9,000 lancets per year, or 12 test strips and 24 lancets per day.

These limits currently allowed by the Department exceed what a diabetic patient (either insulin or non-insulin dependent) would need to test his/her glucose level on a daily basis. We compared the Department's limits for diabetic testing supplies with the federal Medicare program and Medicaid programs in ten other states. We found that New York State's Medicaid program had the highest limits of all of the states we reviewed, allows more than double the amount of supplies Medicare allows, and allows more supplies than the average of the ten other states, as follows:

- Medicare allows 1,200 test strips and 1,200 lancets per year for insulin-dependent diabetics (approximately three to four of each per day) and 400 test strips and 400 lancets per year for non-insulin dependent diabetics (at least one of each per day).

- The ten other states' Medicaid programs allowed an average of 2,520 test strips per year (seven per day) and an average of 2,780 lancets per year (seven to eight per day). Six of the ten states were below the average and allowed, for instance, less than seven test strips per day, or between 1,000 and 2,400 test strips per year.

According to Medicaid claims paid for diabetic test supplies during our five year audit period, on a yearly basis, there were 27,156 recipients who received more than 1,200 test strips and 17,045 recipients who received more than 1,200 lancets. If the Department had the same 1,200 limit as Medicare, the Medicaid program could have potentially saved approximately $13.8 million ($13.3 million on test strips and $500,000 on lancets) during this period. If the Department had limits in line with the average of the 10 other states, savings of more than $1 million could have been realized.

We further found that Medicaid does not have different limits on test strips or lancets based upon whether a recipient is insulin dependent or non-insulin dependent. Generally, non-insulin dependent diabetics test their blood glucose levels less than insulin dependent diabetics. Of the 27,156 Medicaid recipients who received more than 1,200 test strips in a year, 9,024 were non-insulin dependent (33

percent). Therefore, they should have needed less testing supplies and under Medicare guidelines, would only have been able to obtain 400 test strips and lancets a year.

In addition, Medicaid allows recipients to receive two lancets for every test strip. Six of the ten states we contacted, along with Medicare, have a one lancet to one test strip ratio. When we reviewed Medicaid claims paid for diabetic test supplies for our five year audit period, we found several major inconsistencies in the number of supplies ordered for 227,394 recipients. For example:

- 120,273 Medicaid recipients received more test strips than lancets at a cost of more than $68 million;
- 55,322 recipients received more lancets than test strips, costing more than $1 million;
- 48,235 recipients did not receive any lancets but had claims for test strips totaling more than $21 million; and
- 3,564 recipients did not receive any test strips, but had claims for lancets totaling more than $38,000.

We found the Department's Medicaid claims processing system, eMedNY, does not prevent providers from billing for or recipients from obtaining excessive diabetic testing supplies. Besides allowing patients one early refill every two months so they can obtain 4,500 test strips and 9,000 lancets per year, eMedNY tracks and controls these limits by provider (e.g., pharmacy) instead of by recipient. As a result, Medicaid recipients can obtain up to 4,500 test strips and 9,000 lancets from multiple providers. For example, one recipient received 9,650 test strips in a one year period, using multiple pharmacies. This recipient received 2,900 test strips in one month (April of 2008) from seven different pharmacies. In order for the recipient to use all of the 2,900 test strips, the recipient would have to test his/her blood sugar 96 times a day. Nine of the ten states we contacted limit diabetic testing supplies by recipient, not by provider as New York does.

Department officials defend current Medicaid limits for diabetic testing supplies because they contend the Medicaid population differs from Medicare's population. Officials stated that more of the Medicaid population is likely to have diabetes and, since Medicaid covers young children, it is also likely that a greater portion of the population will be insulin dependent. Of the 364,697 Medicaid recipients who received diabetic testing supplies during our five year audit period, 65 percent had no claims for insulin and 35 percent did. These statistics indicate the majority (65 percent) of the Medicaid recipients with diabetes is not insulin-dependent - these recipients would receive sufficient test supplies especially if the Department used the lower test supply limits for insulin-dependent diabetics used by Medicare. We recognize there may be instances where a diabetic patient would need more supplies than allowed by the limits used by Medicare or the other states we surveyed. In these cases, and as practiced by Medicare and the other states, an additional level of prior approval or prior authorization would be required by the Department to obtain additional testing supplies.

When Medicaid limits are excessive, there is increased potential for waste and possibly even fraud. The New York State Social Services Law requires the Department to identify methods to contain the growth of Medicaid spending and methods to improve the efficiency and effectiveness of existing service delivery. Therefore, we recommend

that the Department reassess Medicaid's limits on test strips and lancets.

Department officials are not prohibited from changing diabetic testing supply limits and indicated they will consult with the New York State Diabetes Prevention and Control Program regarding current Medicaid limits on diabetic testing supplies. Department officials also agreed to review and investigate the recipients we identified as receiving excessive supplies to determine if these discrepancies are an indication of abuse of the Medicaid program.

Recommendations

1. Consider changing the diabetic testing supply limits within the New York State Medicaid program to: lower the number of test strips and lancets that recipients are allowed to obtain each year without prior-approval, establish different limits for insulin and non-insulin dependent diabetics, and make the limit on test strips equal to the limit on lancets.

2. Communicate the new diabetic testing supply limits to providers and recipients.

3. Modify the eMedNY edits on test strips and lancets to prevent recipients from receiving more than the new Department limits and consider limiting supplies by recipient rather than by provider.

4. Evaluate the feasibility of implementing eMedNY edit controls to limit supplies based on insulin dependency.

5. Follow-up on the amount of test strips and lancets obtained by Medicaid recipients that appear excessive which were identified in our audit to determine if discrepancies are an indication of abuse of the Medicaid program and take action, as appropriate.

AUDIT SCOPE AND METHODOLOGY

We audited the Department's administration of Medicaid as it relates to diabetic testing supplies for the period July 1, 2003 through June 30, 2008.

To accomplish our objectives we met with Department officials to gain an understanding of the policies and controls relating to diabetic testing supplies in Medicaid. We examined the Department's relevant policies and procedures. We extracted all claims for test strips and lancets from eMedNY, the Department's Medicaid claims processing information system, and analyzed the claims to determine if excess supplies were provided. We visited the two highest paid pharmacies in diabetic supplies during our audit period. We judgmentally selected the top 25 highest billed recipients at each pharmacy and reviewed the supply distribution process. To estimate the amounts New York could have saved, we used Medicaid's 2008 rate for test strips and lancets. To determine if New York's limits were similar to other states we judgmentally selected ten states and contacted them (Massachusetts, Virginia, South Carolina, North Carolina, Michigan, Minnesota, Ohio, California, New Jersey, and Florida).

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

REPORTING REQUIREMENTS

We provided a draft copy of this report to Department officials for their review and comment. Department officials generally agreed with our recommendations and indicated actions planned to implement the recommendations. We considered their comments in preparing this report. A complete copy of the Department's response is included as Appendix A. Appendix B contains State Comptroller's comments which address matters contained in the Department's response.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Health shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to the report include Steve Sossei, Sheila Emminger, Andrea Inman, Amanda Strait, Mark Breunig, Judith McEleney and Sue Gold.

APPENDIX A - AUDITEE RESPONSE

STATE OF NEW YORK
DEPARTMENT OF HEALTH
Corning Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Richard F. Daines, M.D.
Commissioner

Wendy E. Saunders
Executive Deputy Commissioner

January 7, 2009

Mr. Steven E. Sossei, Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236

Dear Mr. Sossei:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's draft audit report 2008-S-123 on "Medicaid Payments for Diabetic Testing Supplies."

Thank you for the opportunity to comment.

Sincerely,

Wendy E. Saunders
Executive Deputy Commissioner

Enclosure

cc: Stephen Abbott
Deborah Bachrach
Homer Charbonneau
Ron Farrell
Gail Kerker
Sandra Pettinato
Robert W. Reed
James Sheehan

Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report 2008-S-123 on
"Medicaid Payments for Diabetic Testing Supplies"

The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) draft audit report 2008-S-123 on "Medicaid Payments for Diabetic Testing Supplies", including general comments followed by responses to the specific recommendations contained in the report.

General Comments

The report contains some scientific medical terminology which should be clarified. The appropriate terminology to classify individuals with diabetes is "Type I Diabetes" and "Type II Diabetes". Type I diabetics have loss of insulin-producing cells and are dependent upon the administration of insulin. Type II diabetics have insulin resistance and can control their disease through weight management, diet, exercise and with various pharmacologic agents including oral agents and insulin, among others. A good number of Type II diabetics fail to respond adequately to other pharmacologic management and require insulin therapy to control the blood glucose level. Such Type II diabetics are "insulin requiring".

* Comment 1

For individuals using multiple insulin injections or insulin pump therapy, the American Diabetes Association recommends self-monitoring of blood glucose three or more times daily. [American Diabetes Association. Standards of medical care in diabetes – 2008. Diabetes Care 2008 Jan; 31 (Suppl 1):S12-54]

Recommendation #1:

Consider changing the diabetic testing supply limits within the New York State Medicaid program to: lower the number of test strips and lancets that recipients are allowed to obtain each year without prior-approval, establish different limits for insulin and non-insulin dependent diabetics, and make the limit on test strips equal to the limit on lancets.

Response #1:

The Department will consider whether glucose test strip and lancet quantity limits should be reduced, taking into account the significant clinical standard, current standards of practice, the need to avoid costly emergency room treatment and inpatient admissions due to the unavailability of test strips, and the delays that could be caused by requiring prior approval to override limits. It will also examine the benefits of establishing quantity limits based on diagnoses, taking into account the wide variation in individual testing needs and considering factors such as whether the diagnosis is new or existing, variations due to age and patient compliance with their treatment program. Additionally, while the Department agrees that the quantity limits should be reconsidered, the audit's projection that Medicaid could have saved $13.8 million over

*See State Comptroller's Comments, page 11

the five-year audit period ($2.76 million per year) is based on the assumption that the Medicare limits are appropriate for the Medicaid population. The audit does not provide clinical support for this determination. In fact, according to the report, using limits in line with the average of the 10 other state Medicaid programs reviewed by the audit reduces the potential five-year savings to $1 million ($200,000 per year). This suggests that Medicaid programs typically do not have the same clinical or usage profile as Medicare.

* Comment 2

Recommendation #2:

Communicate the new diabetic testing supply limits to providers and recipients.

Response #2:

Any quantity limit updates which the Department deems appropriate will be posted on the eMedNY provider communication links (www.eMedNY.org) and included in the Pharmacy and Durable Medical Equipment manuals as well as the Medicaid Update provider publication. Recipients impacted by the updated limits are expected to discuss their situation with their provider.

Recommendation #3:

Modify the eMedNY edits on test strips and lancets to prevent recipients from receiving more than the new Department limits and consider limiting supplies by recipient rather than by provider.

Response #3:

Any modifications to quantity limits and/or controls which the Department deems appropriate will be updated in the eMedNY system.

Recommendation #4:

Evaluate the feasibility of implementing eMedNY edit controls to limit supplies based on insulin dependency.

Response #4:

The vast majority of these supplies are billed on pharmacy claims, which typically do not collect diagnosis. Additionally, eMedNY does not currently contain the functionality necessary to enforce quantity limits based on diagnosis. The Department will examine whether Medicare, other State Medicaid programs or private payors edit in this manner and then determine the clinical and systems practicality of initiating an evolution project.

Recommendation #5:

Follow-up on the amount of test strips and lancets obtained by Medicaid recipients that appear excessive which were identified in our audit to determine if discrepancies are an indication of abuse of the Medicaid program and take action, as appropriate.

*See State Comptroller's Comments, page 11

Response #5:

The Office of the Medicaid Inspector General has agreed to assist the Department with follow-up as needed. However, based on the figures in the audit, the number of recipients who are possibly receiving excessive quantities that are not medically justified is extremely small: 65 over the five-year period. Per regulation, all supplies must be ordered by a qualified practitioner who must specify the quantity ordered, and this fiscal order must be presented to the dispensing provider and maintained on file. In addition, the clinical file must support the quantity ordered.

APPENDIX B - STATE COMPTROLLER'S COMMENTS

1. We recognize that individuals with diabetes are usually classified as either "Type I Diabetics" or "Type II Diabetics." We did not use this classification in our audit report. Instead we categorized diabetics as either insulin dependant or non-insulin dependant because our audit conclusions were based on insulin dependency. As the Department notes, some Type II diabetics can be insulin dependant.

2. As stated in our report, 65 percent of the 364,697 Medicaid recipients who received diabetic testing supplies during our five year audit period had no claims for insulin. These statistics indicate the majority (65 percent) of the Medicaid recipients with diabetes is not insulin-dependent - these recipients would receive sufficient test supplies especially if the Department used the lower test supply limits for insulin-dependent diabetics used by Medicare. We recognize there may be instances where a diabetic patient would need more supplies than allowed by the limits used by Medicare or the other states we surveyed. In these cases, and as practiced by Medicare and the other states, an additional level of prior approval or prior authorization would be required by the Department to obtain additional testing supplies.