

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NEW JERSEY MEDICAID
PROGRAM COULD ACHIEVE
SAVINGS BY REDUCING
HOME BLOOD-GLUCOSE
TEST STRIP PRICES**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General

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Office of Inspector General

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EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In New Jersey, the Department of Human Services (State agency) administers the Medicaid program through a traditional fee-for-service model as well as through four contracted managed care organizations (MCOs).

Pursuant to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Act, Medicare Part B covers home blood-glucose test strips (test strips) that physicians prescribe for diabetics. The amount allowed for payment of test strips is generally equal to the lesser of the Medicare fee schedule amount or the amount charged by a supplier. Although CMS has established ceiling prices for test strips, significantly lower prices may be available for retail store brands.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, mandated the establishment of a Medicare competitive acquisition program (competitive bidding) under which prices for selected medical supplies, including mail-order test strips, sold in specified competitive bidding areas would be determined by suppliers' bids rather than a fee schedule. The program was operational in nine metropolitan areas as of January 1, 2011.

Pursuant to section 1915(a)(1)(B) of the Act and requirements established in 42 CFR §§ 431.51(d) and 431.54(d), the Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise, if the State assures and CMS finds that adequate services or devices are available to recipients under the special procedures.

New Jersey Administrative Code sections 10:51 and 10:59 provide for the coverage of diabetic testing supplies, including test strips. The State agency reimburses providers the lesser of the usual and customary charge or the Medicaid fee for each item. Additionally, contracts between the State agency and the MCOs list diabetic testing supplies as a covered benefit provided to eligible beneficiaries. The monthly Medicaid capitation payment that the State agency makes to an MCO for each eligible beneficiary includes these supplies.

During the period January 1, 2011, through December 31, 2011, the State agency made Medicaid fee-for-service payments totaling \$3,924,767 for test strips. During this same period, the four Medicaid MCOs in New Jersey paid providers \$6,441,851 for test strips.

OBJECTIVE

Our objective was to determine whether the State agency could achieve Medicaid program savings for test strips.

SUMMARY OF FINDINGS

The New Jersey Medicaid program could have achieved savings of approximately \$1.8 million to \$2.7 million during the period January 1, 2011, through December 31, 2011, by reducing test strip reimbursement rates to retail rates or by establishing a competitive bidding program for test strips. Specifically, we determined that retail prices for 50-unit packages of test strips were lower than the State agency's average Medicaid fee-for-service reimbursement rate. We also determined that the Medicare reimbursement rates for mail-order test strips obtained through competitive bids were lower than the State agency's average Medicaid fee-for-service reimbursement rate. Decreasing the Medicaid fee-for-service reimbursement rate to average retail price levels or establishing a competitive bidding mail-order program similar to the Medicare program could result in a 46- to 68-percent reduction in the price of test strips paid under the New Jersey Medicaid fee-for-service program.

Additionally, the average reimbursement rate for a 50-unit package of test strips paid by the 4 Medicaid MCOs in New Jersey was significantly higher than both retail test strip prices and the Medicare reimbursement rates obtained through competitive bids. Specifically, during the period January 1, 2011, through December 31, 2011, total MCO reimbursement for test strips was \$3.1 million and \$4.5 million greater than retail prices and Medicare payment rates, respectively. Decreasing MCO reimbursement rates for test strips to the average retail price or establishing a competitive bidding mail-order program similar to the Medicare program could result in a 49- to 70-percent reduction in the price of test strips paid by the four New Jersey Medicaid MCOs and additional savings to the New Jersey Medicaid program.

RECOMMENDATIONS

We recommend that the State agency consider:

- reducing the Medicaid fee-for-service reimbursement rate for test strips to be comparable to the average retail price or establishing a competitive bidding program similar to Medicare for the purchase of test strips, which could have resulted in savings to the New Jersey Medicaid fee-for-service program of \$1.8 million to \$2.7 million during the period January 1, 2011, to December 31, 2011, and
- working with the four Medicaid MCOs to adjust payment rates for test strips to the average retail price or to Medicare competitive payment rates, which could have reduced MCO test strip prices by a total of \$3.1 million to \$4.5 million during the period January 1, 2011, to December 31, 2011.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency disagreed with our recommendations. Regarding our first recommendation, the State agency indicated that our estimate of Medicaid fee-for-service savings would not have been realized because more than 90 percent of New Jersey's Medicaid beneficiaries are currently enrolled in an MCO. Regarding our second recommendation, the State agency indicated that the decision to implement the recommended MCO test-strip pricing rests with each MCO.

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. We arrived at our estimate of Medicaid fee-for-service savings by comparing Medicaid fee-for-service payments the State agency made for test strips provided during the period January 1, 2011, through December 31, 2011, to retail test strip prices and to the highest Medicare competitive bidding area payment rate. The analysis to determine whether savings could be achieved if the MCOs reduced test strip reimbursement rates was done at the request of the State agency. The State agency indicated that it could use the information to work with the MCOs to lower MCO test strip payment rates, which would lead to the State agency making lower monthly Medicaid capitated payments, as well as savings to the Medicaid program.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

In New Jersey, the Department of Human Services (State agency) administers the Medicaid program, offering benefits to eligible beneficiaries through a traditional fee-for-service model as well as through four contracted managed care organizations (MCOs). The State agency uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process and pay Medicaid claims.

Federal and State Requirements

Pursuant to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Act, Medicare Part B covers home blood-glucose test strips (test strips) that physicians prescribe for diabetics. The amount allowed for payment of test strips is generally equal to the lesser of the Medicare fee schedule amount or the amount charged by a supplier. Although CMS has established ceiling prices for test strips, significantly lower prices may be available for retail store brands (e.g., Wal-Mart, Walgreens, and CVS).

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, mandated the establishment of a Medicare competitive bidding program (competitive bidding) under which prices for selected medical supplies, including mail-order test strips, sold in specified competitive bidding areas (CBA) would be determined by suppliers' bids rather than a fee schedule. The program was operational in nine metropolitan areas as of January 1, 2011.¹

Pursuant to section 1915(a)(1)(B) of the Act and requirements established in 42 CFR §§ 431.51(d) and 431.54(d), the Medicaid agency may establish special procedures for the purchase of medical devices through a competitive bidding process or otherwise, if the State assures and CMS finds that adequate services or devices are available to recipients under the special procedures.

New Jersey Administrative Code sections 10:51 and 10:59 provide for the coverage of diabetic testing supplies, including test strips. The State agency reimburses providers the lesser of the usual and customary charge or the Medicaid fee for each item. Additionally, contracts between the State agency and the MCOs list diabetic testing supplies as a covered benefit provided to eligible beneficiaries. The monthly Medicaid capitation payment that the State agency makes to

¹ New Jersey is not currently one of the nine CBAs.

an MCO for each eligible beneficiary includes these supplies. The State agency does not obtain manufacturer rebates for diabetic testing supplies.²

During the period January 1, 2011, through December 31, 2011, the State agency made Medicaid fee-for-service payments totaling \$3,924,767 for test strips. During this same period, the four Medicaid MCOs in New Jersey made payments to providers totaling \$6,441,851 for test strips.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency could achieve Medicaid program savings for test strips.

Scope

Our audit covered Medicaid fee-for-service payments made by the State agency, totaling \$3,924,767, for 79,861 50-unit packages of test strips supplied to beneficiaries during the period January 1, 2011, through December 31, 2011, and billed to the Medicaid program with procedure code A4253 or the applicable National Drug Codes (NDCs).³ In addition, we reviewed payments totaling \$6,441,851 that New Jersey's 4 Medicaid MCOs made to providers for 123,782 50-unit test strip packages supplied to beneficiaries during the period January 1, 2011, through December 31, 2011.

We did not review the overall internal control structure of the State agency. Rather, we limited our internal control review to obtaining an understanding of the State agency's test strips reimbursement policies.

We performed fieldwork from April through August 2012.

Methodology

To accomplish our audit objective, we:

- reviewed applicable Federal and State laws and regulations;
- obtained an understanding of New Jersey's diabetic supply program;

² Our report, *Indiana Reduced Medicaid Costs for Home Blood-Glucose Test Strips by Approximately 50 Percent Using Manufacturer Rebates* (A-05-12-00011), described a selective contracting program to obtain manufacturer rebates for test strips and reduce State expenditures, for which the Indiana Medicaid program obtained a waiver from CMS.

³ The figure includes \$138,503 for 3,811 50-unit packages billed with procedure code A4253 and \$3,786,264 for 76,050 50-unit packages billed with the applicable NDCs.

- extracted 38,980 fee-for-service claims from the New Jersey MMIS for 79,861 50-unit packages of test strips totaling \$3.9 million supplied during the period January 1, 2011, through December 31, 2011;
- obtained 58,801 managed care encounter data claims from the State agency for 123,782 50-unit packages of test strips totaling \$6.4 million supplied to beneficiaries enrolled in a Medicaid MCO during the period January 1, 2011, through December 31, 2011;
- identified the Medicare payment rates for test strips in nine CBAs;
- identified the average retail price for a 50-unit package of test strips charged by 4 major retailers;
- determined the approximate savings the State agency could achieve if it reduced Medicaid fee-for-service reimbursement rates for test strips to the average retail price;
- determined the approximate savings the State agency could achieve if it implemented a competitive bidding program by comparing its average reimbursement rate for test strips with the highest Medicare CBA test strip payment rate;
- determined the approximate savings the four New Jersey Medicaid MCOs could achieve if they reduced reimbursement rates for test strips to the average retail price; and
- determined the approximate savings the four New Jersey Medicaid MCOs could achieve if they implemented a competitive bidding program by comparing the MCOs' average reimbursement rate for test strips with the highest Medicare test strip payment rate.

We conducted this 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.

FINDINGS AND RECOMMENDATIONS

The New Jersey Medicaid program could have achieved savings of approximately \$1.8 million to \$2.7 million during the period January 1, 2011, through December 31, 2011, by reducing the Medicaid fee-for-service reimbursement rate for test strips to retail rates or by establishing a competitive bidding program for test strips. Cost savings for test strips paid by the four Medicaid MCOs in New Jersey are also possible and could result in additional savings to the New Jersey Medicaid program. Specifically, during the period January 1, 2011, through December 31, 2011, total MCO reimbursement for tests strips was \$3.1 million and \$4.5 million greater than retail prices and Medicare payment rates, respectively.

We determined that both the retail prices for test strips and Medicare reimbursement rates for mail-order test strips obtained through competitive bids in the nine CBAs were lower than the State agency's average Medicaid fee-for-service reimbursement rate. Specifically, for a 50-unit package of test strips, the average retail price was \$26.74 and the highest Medicare CBA payment rate was \$15.62, whereas New Jersey's average Medicaid fee-for-service reimbursement rate was \$49.14.⁴ Decreasing the Medicaid fee-for-service reimbursement rate to average retail price levels or establishing a competitive bidding mail-order program similar to the Medicare program could result in a 46- to 68-percent reduction in the price of test strips paid under the New Jersey Medicaid fee-for-service program.

Additionally, the average reimbursement rate for a 50-unit package of test strips paid by the 4 Medicaid MCOs in New Jersey was significantly higher than retail test strip prices and the Medicare reimbursement rates for mail-order test strips obtained through competitive bids in the 9 CBAs. Specifically, the MCOs' average reimbursement rate for a 50-unit package of test strips provided during the period January 1, 2011, through December 31, 2011, was \$52.04, compared with \$26.74 (average retail store brand price) and \$15.62 (highest Medicare CBA payment rate). Decreasing MCO reimbursement rates for test strips to the average retail price or establishing a competitive bidding mail-order program similar to the Medicare program could result in a 49- to 70-percent reduction in the price of test strips paid by the four New Jersey Medicaid MCOs. As a result, the New Jersey Medicaid program could achieve potential additional savings through lower monthly Medicaid capitation payments.

MEDICARE COMPETITIVE BIDDING PROGRAM

Pursuant to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Act, Medicare Part B covers test strips that physicians prescribe for diabetics. The amount allowed for payment of test strips is generally equal to the lesser of the Medicare fee schedule amount or the amount charged by a supplier.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, P.L. No. 108-173, mandated the establishment of a Medicare competitive bidding program under which prices for selected medical supplies, including mail-order test strips, sold in specified CBAs would be determined by suppliers' bids rather than a fee schedule. The program set lower payment amounts for medical supply items while ensuring continued access to quality items and services. The intended result was to reduce beneficiaries' out-of-pocket expenses and create savings for taxpayers and the Medicare program. As of January 1, 2011, the Medicare competitive bidding program was operational in nine CBAs.

COST SAVINGS FOR THE NEW JERSEY MEDICAID FEE-FOR-SERVICE PROGRAM

The State agency could achieve savings for test strips by reducing the rate it pays for test strips or by establishing a competitive bidding program similar to the Medicare program. We determined that both retail test strip prices and Medicare prices obtained through competitive

⁴ The average reimbursement rate for a 50-unit package of test strips billed with procedure code A4253 was \$36.34; for packages billed with an NDC, the average rate was \$49.79.

bids were lower than New Jersey’s average Medicaid fee-for-service reimbursement rate. The average retail price for a 50-unit package of test strips charged by for 4 major retailers⁵ in 2011 was \$26.74, whereas New Jersey’s average Medicaid fee-for-service reimbursement rate for test strips provided during the period January 1, 2011, through December 31, 2011, was \$49.14, a difference of \$22.40 per package. In addition, the highest Medicare CBA payment rate for a 50-unit package of test strips in 2011 was \$15.62, a difference of \$33.52 per package.

On the basis of our review of New Jersey’s Medicaid fee-for-service test strip payments, retail test strip prices, and Medicare CBA payment rates, the State agency could achieve savings of approximately \$1.8 to \$2.7 million. Specifically, reducing Medicaid fee-for-service test strip prices to retail levels or establishing a competitive bidding program similar to the Medicare program could result in a 46- to 68-percent reduction in the cost of test strips paid under the New Jersey Medicaid fee-for-service program.

Tables 1 and 2 detail cost savings that could have been achieved through reducing New Jersey’s reimbursement rates for test strips to the average retail rate or the rate available under the Medicare CBA program, respectively.

Table 1: Cost Savings Achieved by Reducing Medicaid Fee-For-Service Reimbursement Rates to Average Retail Rate

	New Jersey Medicaid Fee-For-Service	Average Retail Price	Cost Savings (Difference)
Reimbursement rate (50-unit pack)	\$49.14	\$26.74	\$22.40
Reimbursement rate (per unit)	0.98	0.53	0.45
Total* (3,993,050 units)	\$3,924,767	\$2,135,683	\$1,789,084

* Differences in total calculations are due to rounding.

⁵ CVS, Target, Walgreens, and Wal-Mart.

Table 2: Cost Savings Achieved by Establishing Competitive Bidding Program

	New Jersey Medicaid Fee-For-Service	Highest Medicare CBA Payment Rate	Cost Savings (Difference)
Reimbursement rate (50-unit pack)	\$49.14	\$15.62	\$33.52
Reimbursement rate (per unit)	0.98	0.31	0.67
Total* (3,993,050 units)	\$3,924,767	\$1,247,429	\$2,677,338

* Differences in total calculations are due to rounding.

COST SAVINGS FOR NEW JERSEY'S MEDICAID MANAGED CARE ORGANIZATIONS

Cost savings for test strips paid by the four Medicaid MCOs in New Jersey are also possible and could result in additional savings to the New Jersey Medicaid program. Specifically, we determined that the average MCO reimbursement rate for a 50-unit package of test strips was significantly higher than both the average retail price and the Medicare reimbursement rates for mail-order test strips obtained through competitive bids. As detailed in Table 3, the average MCO reimbursement rate for a 50-unit package of test strips provided during the period January 1, 2011, through December 31, 2011, was \$52.04, whereas the average retail price for a 50-unit package of test strips was \$26.74, a difference of \$25.30 per package. In addition, the average MCO reimbursement rate was \$36.42 greater than the highest Medicare CBA payment rate in 2011.

Based on our review of payments made by the four New Jersey Medicaid MCOs for test strips, retail test strip prices, and Medicare CBA payment rates, MCO test strip payments could be reduced by \$3.1 million to \$4.5 million. Specifically, reducing MCO test strip prices to the average retail price or establishing a competitive bidding program similar to the Medicare program could result in a 49- to 70-percent reduction in the price of test strips paid by the four New Jersey Medicaid MCOs. As a result, the New Jersey Medicaid program could achieve potential additional savings through lower monthly Medicaid capitation payments.

Tables 3 and 4 detail cost savings that MCO's could have achieved by reducing the reimbursement rates for test strips to the average retail rate or the rate available under the Medicare CBA program, respectively.

Table 3: MCO Cost Savings Achieved by Reducing Reimbursement Rate

	New Jersey Medicaid MCO	Average Retail Price	Cost Savings (Difference)
Reimbursement rate (50-unit pack)	\$52.04	\$26.74	\$25.30
Reimbursement rate (per unit)	1.04	0.53	0.51
Total* (6,189,100 units)	\$6,441,851	\$3,310,240	\$3,131,611

* Differences in total calculations are due to rounding.

Table 4: MCO Cost Savings Achieved by Establishing Competitive Bidding Program

	New Jersey Medicaid MCO	Highest Medicare CBA Payment Rate	Cost Savings (Difference)
Reimbursement rate (50-unit pack)	\$52.04	\$15.62	\$36.42
Reimbursement rate (per unit)	1.04	0.31	0.73
Total* (6,189,100 units)	\$6,441,851	\$1,933,475	\$4,508,376

* Differences in total calculations are due to rounding.

RECOMMENDATIONS

We recommend that the State agency consider:

- reducing the Medicaid fee-for-service reimbursement rate for test strips to be comparable to the average retail price or establishing a competitive bidding program similar to Medicare for the purchase of test strips, which could have resulted in savings to the New Jersey Medicaid fee-for-service program of \$1.8 million to \$2.7 million during the period January 1, 2011, to December 31, 2011, and
- working with the four Medicaid MCOs to adjust payment rates for test strips to the average retail price or to Medicare competitive payment rates, which could have reduced MCO test strip prices by a total of \$3.1 million to \$4.5 million during the period January 1, 2011, to December 31, 2011.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency disagreed with our recommendations. Regarding our first recommendation, the State agency indicated that, in 2011, it implemented a plan to enroll most Medicaid-eligible beneficiaries in managed care plans, resulting in more than 90 percent of New Jersey's Medicaid beneficiaries being enrolled in a Medicaid MCO. Consequently, according to the State agency, the estimated savings identified in our report would not have been realized by the fee-for-service program. The State agency also indicated that almost all test strips sold in New Jersey retail pharmacies are brand-name products for which it does not have the authority to set upper payment limits. The State agency also believes that establishing a competitive bidding program would result in a mail-order company becoming the low bidder and adversely affect a Medicaid beneficiary's ability to obtain test strips.

Regarding our second recommendation, the State agency indicated that the decision to implement the recommended MCO test-strip pricing rests with each MCO. Each MCO must determine whether cost avoidances achieved by its members properly monitoring their blood glucose levels outweigh concerns regarding members' test strip acquisition costs.

The State agency's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. Specifically, we arrived at the Medicaid fee-for-service savings identified in our report by comparing Medicaid fee-for-service payments that the State agency made for test strips provided during the period January 1, 2011, through December 31, 2011, to retail test strip prices and to the highest Medicare CBA payment rate. Accordingly, these amounts represented what the State agency could have saved in 2011 had it reduced its fee-for-service payment rates for test strips to be comparable to the average retail price or if it established a competitive bidding program. In addition, although a majority of Medicaid beneficiaries may be enrolled in an MCO, there are still beneficiaries that are not and for whom test strips are being reimbursed by the Medicaid fee-for-service program. Therefore, we maintain that there is still an opportunity for the State agency to achieve savings if it reduces the Medicaid fee-for-service reimbursement rate for test strips.

The analysis to determine whether savings could be achieved if the State agency reduced fee-for-service test strip payment rates to retail prices was done at the State agency's request, as the State agency was concerned that the Medicare CBA payment rates were low, and it believed retail prices would be more realistic. We provided this information to allow the State agency to compare both fee-for-service and MCO test strip payment rates to the price of similar products available at four major retailers.

We disagree with the State agency's argument that implementing a competitive bidding program would adversely affect beneficiaries' access to test strips. Specifically, other States have successfully taken steps to lower Medicaid fee-for-service test strip reimbursement rates without adversely affecting beneficiaries' access to test strips.

Finally, we acknowledge that the decision to reduce MCO reimbursement rates rests with each MCO, and we acknowledge the importance of a diabetic beneficiary properly monitoring blood glucose levels. The State agency indicated that it could use the information to work with the MCOs to lower MCO test strip payment rates, which could lead to the State agency making lower monthly Medicaid capitated payments and result in savings to the Medicaid program. Our findings for the managed care program are limited to cost savings that MCOs could achieve because we recognize that the price of test strips is just one element of the monthly capitated rate amounts paid by the State agency. However, we maintain that the State agency could achieve Medicaid program savings through lower monthly capitated rates by working with the four Medicaid MCOs to reduce MCO test strip payment rates.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PO Box 712
TRENTON, NJ 08625-0712

June 5, 2013

JENNIFER VELEZ
Commissioner

VALERIE HARR
Director

Audit Report Number: A-02-12-01010

James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services Region II
Jacob K. Javits Federal Building
26 Federal Plaza – Room 3900
New York, NY 10278

Dear Mr. Edert:

This is in response to your letter dated April 23, 2013, concerning the Department of Health and Human Services, Office of the Inspector General's (OIG) draft report entitled "*New Jersey Medicaid Program Could Achieve Savings by Reducing Home Blood-Glucose Test Strip Prices.*" Your letter provides the opportunity to comment on this draft report.

The draft audit report concluded that New Jersey's Medicaid program could have achieved savings of approximately \$1.8M to \$2.7M during the period January 1, 2011 through December 31, 2011 by reducing test strip reimbursement rates to retail rates or by establishing a competitive bidding program for test strips. Additionally, the New Jersey Division of Medical Assistance & Health Services' (DMAHS) four Managed Care organizations (MCOs) could have achieved savings of approximately \$3.1M to \$4.5M if they had also reduced test strip reimbursement rates to retail rates or established a competitive bidding mail-order program similar to the Medicare program. These savings would provide additional savings to the New Jersey Medicaid program.

We appreciate the opportunity to provide this response to the draft OIG audit report. Following are the auditors' recommendations and DMAHS's responses:

Recommendation 1:

The OIG recommends that DMAHS consider reducing the Medicaid fee-for-service (FFS) reimbursement rate for test strips to be comparable to the average retail price or establishing a competitive bidding program similar to Medicare for the purchase of test strips:

James P. Edert
 June 5, 2013
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DMAHS implemented a plan in Calendar Year (CY) 2011 to enroll most Medicaid-eligible beneficiaries in managed care plans so that over 90% of the Medicaid population is now enrolled in a Medicaid MCO. Consequently, the estimated savings highlighted in the draft audit report would not have been realized by the FFS program in CY 2011 or in future years. Although any savings are important, the State does not agree with the recommendations as outlined in the following discussions on each recommendation:

- **Reduce Rate to be Comparable to the Average Retail Price:**

Almost all test strips sold in pharmacies are "brand-name" drug products and DMAHS does not have the authority to set upper payment limits for "brand-name" drugs when provided as pharmacy services. The State supports an "open formulary system" which means DMAHS covers all medically necessary drug products. Consequently, DMAHS is unable to proscribe the selection of test strip brands in order to encourage the use of lower cost products.

- **Establish a Competitive Bidding Program:**

DMAHS believes that a competitive bidding program will result in a mail-order company becoming the low bidder which DMAHS strongly believes will adversely impact our clients ability to obtain test strips.

DMAHS understands that the impact of the competitive bid process for Medicare Part B in New Jersey will not be realized until July 1, 2013. The maximum Part B reimbursement rate for 100 strips will be reduced from \$77.90 to \$22.47 under the new fee schedule resulting from the Medicare competitive bid process. In addition, federal requirements mandated by the American Taxpayer Relief Act of 2013 establishes an upper reimbursement limit for retail sales of diabetic test strips not to exceed the rates established under the national mail order competition for diabetic supplies. The Act also prohibits switching of patients to lower cost meters and home delivery of diabetic test strips by non-mail order providers.

Acquisition costs for most brand-name diabetic test strips far exceed the single payment amount determined by the competitive bid process. Since providers servicing dual-eligibles are required to accept assignment, there is a concern that providers will discontinue providing diabetic test strips, limiting access to these services. Since the true impact of access to care remains undetermined, DMAHS is opposed to moving forward with similar reimbursement changes for the State's Medicaid program.

Recommendation 2:

The OIG recommends that DMAHS work with its MCOs to adjust payment rates for test strips to the average retail price or to Medicare's competitive payment rates:

The decision as to whether or not the recommended test strip pricing should be implemented rests with each MCO. In a capitated MCO contract arrangement, DMAHS anticipates certain efficiencies intended to reflect opportunities on the part of the MCOs to contain unnecessary healthcare costs. In the case of diabetes management, one of the most effective tools is blood glucose testing. What becomes more important is not the unit cost of a test strip, but rather cost avoidance achieved by members properly monitoring their diet and blood glucose levels. It is up to each MCO to determine whether or not cost avoiding healthcare costs for the treatment of advanced diabetes outweigh MCO concerns regarding acquisition costs of test strips.

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Thank you for providing DMAHS the opportunity to provide written comments to the recommendations included in the draft report. If you have any questions, please do not hesitate to contact me or Richard Hurd at 609-588-2550.

Sincerely,


Valerie Harr
Director

c: Jennifer Velez
Richard Hurd