Neighborhood Diabetes, Inc., submitted claims for diabetic testing supplies without the KL modifier in accordance with Medicare billing requirements.

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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The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.
EXECUTIVE SUMMARY

For calendar year 2010, Neighborhood Diabetes, Inc., submitted claims for diabetic testing supplies without the KL modifier in accordance with Medicare billing requirements.

WHY WE DID THIS REVIEW

We performed this review as part of a response to a request from the Senate Special Committee on Aging that we determine whether durable medical equipment suppliers correctly coded Medicare claims for diabetic testing supplies delivered by mail to beneficiaries. Medicare guidance requires suppliers to use the KL modifier on all claims for mail-order diabetic testing supplies, which are reimbursed at a lower amount than supplies provided at local supplier storefronts (walk-in supplier).

After analyzing claim data, we judgmentally selected for review the supplier Neighborhood Diabetes, Inc. (Neighborhood). Our research indicated that Neighborhood was a mail-order supplier of diabetic testing supplies that had billed in calendar year (CY) 2010 a high dollar amount for claims for these supplies without using the KL modifier. In addition, we selected two suppliers from an analysis provided by the Centers for Medicare & Medicaid Services (CMS). This report covers Neighborhood, which has locations in several States. Future reports will cover the two other suppliers.

Our objective was to determine whether Neighborhood submitted claims for diabetic testing supplies without the KL modifier in accordance with Medicare billing requirements.

BACKGROUND

Beneficiaries may obtain diabetic testing supplies from a walk-in supplier or a mail-order supplier, which delivers the supplies through a common carrier (e.g., the U.S. Postal Service or FedEx). However, supplies delivered to a beneficiary without use of a common carrier, such as supplies delivered in a company-owned vehicle, are not considered mail-order supplies. CMS’s Medicare Claims Processing Manual requires that suppliers use the KL modifier on all claims for mail-order diabetic testing supplies. On November 29, 2010, CMS finalized a rule to revise the definition of “mail order item” in Federal regulations to include “any item … shipped or delivered to a beneficiary’s home, regardless of the method of delivery.” The target implementation date for the revised definition is July 1, 2013.

WHAT WE FOUND

For CY 2010, Neighborhood submitted claims for diabetic testing supplies without the KL modifier in accordance with Medicare billing requirements. Of 100 sampled line items, 99 were properly submitted without the KL modifier because Neighborhood used company-owned vehicles to deliver diabetic testing supplies to Medicare beneficiaries. Under Medicare requirements in effect until CMS implements the revised definition of a mail-order item, supplies delivered by company-owned vehicles are not considered mail-order items. Therefore, claims for these supplies do not require use of the KL modifier. The remaining sampled line item
should have been submitted with the KL modifier because Neighborhood had delivered the diabetic testing supplies by mail. Neighborhood discovered this error during our audit and resubmitted the claim with the KL modifier. Consequently, this report has no recommendations.
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INTRODUCTION

WHY WE DID THIS REVIEW

We performed this review as part of a response to a request from the Senate Special Committee on Aging that we determine whether durable medical equipment suppliers correctly coded Medicare claims for diabetic testing supplies delivered by mail to beneficiaries. Medicare guidance requires suppliers to use the KL modifier on all claims for mail-order diabetic testing supplies, which are reimbursed at a lower amount than supplies provided at local supplier storefronts (walk-in supplier).

After analyzing claim data, we judgmentally selected for review the supplier Neighborhood Diabetes, Inc. (Neighborhood). Our research indicated that Neighborhood was a mail-order supplier of diabetic testing supplies that had billed in calendar year (CY) 2010 a high dollar amount for claims for these supplies without using the KL modifier. Because we considered Neighborhood a mail-order supplier, we expected that all of its claims for diabetic testing supplies would have been billed with the KL modifier. In addition, we selected two suppliers from an analysis provided by the Centers for Medicare & Medicaid Services (CMS). This report covers Neighborhood, which has locations in several States. Future reports will cover the two other suppliers.1

OBJECTIVE

Our objective was to determine whether Neighborhood submitted claims for diabetic testing supplies without the KL modifier in accordance with Medicare billing requirements.

BACKGROUND

Diabetic Testing Supplies

According to sections 1832(a)(1), 1861(s)(6), and 1861(n) of the Social Security Act, Medicare Part B covers durable medical equipment, prosthetics, orthotics, and supplies (DMEPOS). DMEPOS includes blood glucose monitors that physicians prescribe for diabetics, whether they are insulin-treated or non-insulin-treated. Part B also covers diabetic testing supplies, such as blood-testing strips (test strips), lancets, glucose control solutions, and spring-powered lancet devices for patients for whom the glucose monitor is covered.

To obtain a reading of the blood-glucose level, the patient uses a disposable sterile lancet to draw a drop of blood, places it on a test strip, and inserts the test strip into a home blood-glucose monitor. These monitors enable certain patients to better control their blood-sugar levels by frequently checking those levels and appropriately contacting a physician for advice and treatment.

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1 Reports A-09-12-02035 and A-09-12-02053 will cover the two other suppliers.
Medicare Reimbursement of Diabetic Testing Supplies

Medicare’s fee schedule for DMEPOS establishes the maximum amounts reimbursed to suppliers for diabetic testing supplies. The amount allowed by Medicare for payment for an individual item, such as a box of test strips, is equal to the lesser of the fee schedule amount or the amount charged by a supplier. Medicare pays the beneficiary or the supplier the amount allowed for payment, less the beneficiary share (i.e., deductibles and coinsurance). For a supplier to be reimbursed by Medicare for a claim for any quantity of diabetic testing supplies, the supplier is required to maintain supporting documentation, including but not limited to a physician order and proof of delivery.

Walk-In and Mail-Order Suppliers

Beneficiaries may obtain diabetic testing supplies from a walk-in supplier or a mail-order supplier. A walk-in supplier has a physical location where beneficiaries or their caregivers can pick up diabetic testing supplies. A mail-order supplier receives requests for supplies from beneficiaries remotely (e.g., by mail, phone, or email or through a Web site) and delivers the supplies through a common carrier (e.g., the U.S. Postal Service or FedEx). Supplies delivered to a beneficiary without use of a common carrier, such as supplies delivered in a company-owned vehicle, are not considered mail-order supplies.²

Required Use of KL Modifier for Mail-Order Diabetic Testing Supplies

CMS’s Medicare Claims Processing Manual (Pub. No. 100-04) requires that suppliers use the KL modifier³ on all claims for diabetic testing supplies delivered by mail to Medicare beneficiaries (chapter 36, section 20.5.4.1). When the KL modifier was introduced on July 1, 2007, it was used only as an informational modifier to identify mail-order supplies, with no impact on the Medicare reimbursement amount. However, the Medicare Improvements for Patients and Providers Act of 2008, P.L. No. 110-275, required a 9.5-percent reduction in the fee schedule amounts for certain items, including diabetic testing supplies delivered by mail on or after January 1, 2009, in any geographical area (section 154(a)(2)). Effective January 1, 2009, the KL modifier became a pricing modifier, reducing the reimbursement for diabetic testing supplies delivered by mail.

Change in Federal Definition of “Mail-Order Item”

On July 13, 2010, CMS issued a notice of proposed rulemaking in the Federal Register to revise the definition of “mail order item.” The proposed rule states that CMS “discovered that suppliers

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² Facts about the DMEPOS Competitive Bidding Program Round 1 Rebid: Mail-Order Diabetic Supplies. Issued September 25, 2009, by Palmetto GBA, Competitive Bidding Implementation Contractor.

³ A modifier is either alphanumeric or two letters reported with a Healthcare Common Procedure Coding System (HCPCS) code and is designed to give Medicare and commercial payers additional information needed to process a claim. (HCPCS codes are used throughout the health care industry to standardize coding for medical procedures, services, products, and supplies.) Medicare requires use of the KL modifier for only the following mail-order diabetic testing supplies: test strips, glucose control solutions, lancet devices, lancets, and replacement batteries for blood glucose monitors.
… tried to adopt certain approaches to circumvent the mail order definition. … For example, some mail order suppliers considered purchasing a fleet of cars to deliver [diabetic testing supplies] to the beneficiary’s home so as not to be considered a mail order supplier” (75 Fed. Reg. 40040, 40214). These suppliers would be able to increase their level of reimbursement because they would be paid the same amount as walk-in suppliers.

CMS finalized the rule on November 29, 2010, to include the following definition of a mail-order item at 42 CFR § 414.202: “… any item (for example, diabetic testing supplies) shipped or delivered to the beneficiary’s home, regardless of the method of delivery” (75 Fed. Reg. 73170, 73623). This definition will be effective when CMS implements the national mail-order DMEPOS Competitive Bidding Program for diabetic testing supplies, whose target implementation date is July 1, 2013.4

Neighborhood Diabetes, Inc.

Neighborhood is a durable medical equipment supplier that specializes in the sale of diabetic supplies. Neighborhood is based in Woburn, Massachusetts, with offices in New York City and Orlando, Florida, and provides diabetic testing supplies, insulin pumps, and pharmaceuticals to more than 60,000 customers with diabetes. Neighborhood’s customers reside primarily in the northeast and southeast regions of the United States.

Neighborhood mails diabetic testing supplies or delivers them to customers’ homes using company-owned vehicles. Neighborhood established its home delivery department in November 2008 to prepare for home delivery services beginning in January 2009, when Medicare reduced the reimbursement amount for supplies delivered by mail.

HOW WE CONDUCTED THIS REVIEW

For CY 2010, Neighborhood received Medicare Part B payments of $5,482,752 for 72,145 line items without the KL modifier for test strips, glucose control solutions, lancet devices, and lancets provided to Medicare beneficiaries. A line item represented an individual type of diabetic testing supply included on a claim. We reviewed a random sample of 100 of these line items.

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 conclusions based on our audit objective.

Appendix A contains the details of our audit scope and methodology. Appendix B contains a list of related Office of Inspector General reports on Medicare claims for diabetic testing supplies.

4 Under this program, CMS will award contracts to suppliers to deliver diabetic testing supplies across the Nation to beneficiaries who elect to have these supplies delivered to them. Medicare will reimburse only contracted suppliers for providing mail-order diabetic testing supplies.
RESULTS OF REVIEW

For CY 2010, Neighborhood submitted claims for diabetic testing supplies without the KL modifier in accordance with Medicare billing requirements. Of 100 sampled line items, 99 were properly submitted without the KL modifier because Neighborhood used company-owned vehicles to deliver diabetic testing supplies to Medicare beneficiaries. Under Medicare requirements in effect until CMS implements the revised definition of a mail-order item, targeted for July 2013, supplies delivered by company-owned vehicles are not considered mail-order items. Therefore, claims for these supplies do not require use of the KL modifier. The remaining sampled line item should have been submitted with the KL modifier because Neighborhood had delivered the diabetic testing supplies by mail. Neighborhood discovered this error during our audit and resubmitted the claim with the KL modifier. Consequently, this report has no recommendations.
APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

For CY 2010, Neighborhood received Medicare Part B payments of $5,482,752 for 72,145 line items without the KL modifier for test strips, glucose control solutions, lancet devices, and lancets provided to Medicare beneficiaries. A line item represented an individual type of diabetic testing supply included on a claim. We reviewed a random sample of 100 of these line items. We limited our review of the sampled line items to determining Neighborhood’s compliance with Medicare billing requirements for use of the KL modifier. We did not review compliance with other requirements, such as presence of a physician order.

We did not review the overall internal control structure of Neighborhood. Rather, we limited our review of internal controls to those that were significant to the objective of our audit.

We conducted our audit from October 2011 to August 2012 and performed fieldwork at Neighborhood’s offices in Woburn, Massachusetts, and New York, New York.

METHODOLOGY

To accomplish our audit objective, we:

- reviewed applicable Federal laws, regulations, and guidance;

- reviewed Neighborhood’s policies and procedures for (1) receiving and processing orders for diabetic testing supplies, (2) maintaining supporting documentation, and (3) processing Medicare claims;

- interviewed Neighborhood officials to obtain an understanding of Neighborhood’s procedures for (1) receiving and processing orders for diabetic testing supplies, (2) maintaining supporting documentation, (3) ensuring that the KL modifier was used on Medicare claims for mail-order supplies, and (4) processing Medicare claims;

- analyzed CY 2010 Medicare paid claim data to identify line items that Neighborhood submitted without the KL modifier for test strips, glucose control solutions, lancet devices, and lancets;

- created a sampling frame of 72,145 line items for test strips, glucose control solutions, lancet devices, and lancets without the KL modifier and randomly selected a sample of 100 line items;

- obtained supporting documentation from Neighborhood for each sampled line item and reviewed it to determine whether Neighborhood should have used the KL modifier when it submitted claims for diabetic testing supplies delivered by mail; and

- shared the results of our review with Neighborhood.
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 conclusions based on our audit objective.
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