

State of New Jersey



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October 6, 2010

Life Medical Supplies, Inc.  
631 E. Elizabeth Ave.  
Linden, NJ 07036

Final Audit Report

Provider ID: XXXXXXXXXX

**Objective:**

The Medicaid program pays for prescribed durable medical equipment (DME) in accordance with N.J.A.C. 10:59. Life Medical Supplies, Inc. (Life) is a Medicaid DME provider. The objective of this audit is to determine that claims and claim reporting procedures for Life, specifically for incontinence supplies, are in accordance with N.J.A.C. 10:59.

**Scope:**

The scope of this audit is to review all of Life's sampled claims of incontinence supplies for the period of July 1, 2008 to June 30, 2009. Recipients who received more than 3,000 incontinence supplies from Medicaid providers were the basis of the sample selection. The audit is conducted pursuant to the *Medicaid Program Integrity and Protection Act* (N.J.S.A. 30:4D-53 *et seq.*).

**Background:**

Life is a DME provider located in Linden, New Jersey. The company enrolled in the Medicaid program effective January 15, 1992. Its primary DME products are incontinence supplies. Incontinence supplies are considered to be disposable adult/children's briefs and/or disposable liners/shields/guards. Life changed ownership on April 18, 2009. This transition was within our audit review period of July 1, 2008 to June 30, 2009.

**Audit Findings:**

**1. Inventory**

Based upon our audit work performed, we determined that Life did not have adequate internal controls over its inventory records. As part of our audit test work, we requested all of Life's inventory records for the audit review period. Life was unable to provide us with the inventory records needed to support its beginning and ending inventory for the audit period. Per the New Jersey Administrative Code, all Medicaid providers are "to keep such records as are necessary to disclose fully the extent of services provided" N.J.A.C. 10:9-9.8. In addition, we could not verify Life's inventory records to its

Medicaid billings at the time of the ownership change. A lack of internal controls can lead to inaccurate accounting of inventory which can cause billing errors or fraud.

Recommendation:

We recommend that Life implement procedures to control inventory, which will allow them to produce accurate and reliable inventory records and safeguard their company assets.

**Auditee Response:**

*We are in receipt of your July 30, 2010 letter providing final audit results of an audit of Medicaid claims submitted by Life Medical Supplies, Inc. for the review period July 1, 2008 through June 30, 2009. Thank you for providing us with the opportunity to respond to the audit findings.*

*The audit report states that you "determined that there is a lack of internal controls pertaining to the accuracy of Life's inventory records." You had requested records to support beginning and ending inventory for the audit period. As we advised you during the audit, Life Medical Supplies, Inc. underwent a change of ownership on April 18, 2009. Thus, for a majority of the period covered by the audit, the current owners were not involved in the operations of Life Medical Supplies, Inc. We were not aware that Medicaid required DME providers to maintain monthly inventory records, since this requirement is not specifically referenced in Medicaid's regulations. However, we have implemented a process to maintain monthly inventory records, since we want to ensure that we are in compliance with all Medicaid documentation requirements.*

*The results of your audit highlighted for us that we needed to implement enhanced internal controls in order to ensure that we always have appropriate documentation readily available in order to disclose fully the extent of all Medicaid services provided. The following enhancements to our business practices have been implemented, effective immediately:*

*Life Medical Supplies, Inc. has had a corporate compliance program in place for a number of years. Following our receipt of your draft audit findings, we immediately held a mandatory corporate compliance meeting for our staff members. We have also provided each employee with a current copy of our corporate compliance plan and reminded our employees of their obligations under the corporate compliance plan.*

*We discussed with our employees the findings that had been communicated to us in the draft audit report. We provided in-service training to our employees on July 29, 2010 regarding both the draft audit findings and the Medicaid program's expectations with regard to the ordering of incontinence supplies and documentation of same.*

*Effective July 31, 2010, we implemented an inventory review system under which beginning and ending counts for incontinence supplies are recorded each month.*

*Effective July 29, 2010 we have implemented a verification system for incontinence supply orders. An employee who is different from the employee generating the order will now check every delivery that is placed on the delivery truck to verify it is being filled in accordance with the physician's written prescription and the printed delivery order. If there is any question about the size and/or quantity of incontinence items prescribed, we will contact the patient's attending physician and request that they submit a new prescription.*

## **2. Medicaid Overpayments**

Based on our audit tests, we determined that there was inadequate documentation to support Medicaid payments to Life totaling \$106,310. As indicated, Life could not provide an accurate accounting of its physical inventory for the audit period. Consequently, we performed alternate test work to calculate Life's inventory. We reviewed Life's purchase orders and delivery tickets during the audit period to arrive at the total incontinence supplies on hand per month. We then compared the purchases and delivery tickets to Life's billings to Medicaid. From the audit test performed we could not support Life's Medicaid billings of diapers and pull-ups to its inventory records.

For the review period, 18,064 extra large diapers were purchased while 22,950 extra large diapers were billed to Medicaid. Extra large diapers receive a higher reimbursement rate than all other diaper sizes (see Table 1). In addition, 34,240 extra-large *pull-ups* were purchased; however, 101,170 units were billed to Medicaid. Finally, 77,288 large *pull-ups* were purchased and 136,720 large *pull-ups* were billed to Medicaid. The other category sizes fluctuated in their balances or had a surplus in inventory. Please see Table 2 below for the calculated differences of inventory shortages:

Table 1 – Reimbursement Rates

<b>Type of Product</b>	<b>Reimbursement Rate</b>
XL Diapers	\$0.81/unit
Large Diapers	\$0.63/unit
XL and Large Pull-ups	\$0.81/unit

Table 2 – Inventory Shortages

<b>Type of Product</b>	<b>Units Purchased per Invoices</b>	<b>Units Billed to Medicaid</b>	<b>Difference</b>	<b>Overpayment by Medicaid</b>
XL Diapers	18,064	22,950	(4,886)	\$3,957.66
XL Pull-ups	34,240	101,170	(66,930)	\$54,213.30
Large Pull-ups	77,288	136,720	(59,432)	\$48,139.92

As previously indicated, Life did not provide all the necessary documentation to support its inventory. Consequently, our overpayments are based on Audit's calculation of the differences between the inventory purchased, per the invoices, and the corresponding billings to Medicaid.

**Recommendation:**

We recommend that Medicaid be reimbursed \$106,310 for billings that were not supported with the proper documentation. Our recommendation is based on additional information we obtained from the auditee that reduced our preliminary finding.

**Auditee Response:**

*We have reviewed and authenticated the initial batch of invoices previously submitted to the auditors following the site visit. We find that there is a discrepancy between the total units purchased as identified in the audit letter and the total units purchased as reflected in the invoices previously submitted. We have attached detailed spreadsheets summarizing our findings and would ask that you review the spreadsheets and give consideration to reducing the total amount of the overpayment referenced in your July 30, 2010 audit letter.*

*You had provided us with an opportunity to submit additional invoices to document orders for incontinence supplies. We have enclosed additional invoices detailing 6,736 units on incontinence supply orders for the four products addressed in the audit letter. These are invoices that we have been able to authenticate.*

*As a result of the findings contained in the spreadsheets referenced above, as well as the additional invoices which we are submitting today, we believe that the amount of the identified overpayment should be reduced to \$106,310.*

*We would ask that you review the invoices which we have submitted and give consideration to reduction of the overpayment amount identified in your letter by the dollar amount attributable to those invoices. We would then ask that you provide us with a revised overpayment calculation. Upon receipt of that calculation, we will immediately provide you with a check to repay the identified overpayment. While this will create a significant financial hardship for our company, we want you to be aware of our commitment to rectifying all issues identified in the audit. Upon payment, we request that you confirm in writing that you have accepted our response and will consider the matter closed.*