NEW JERSEY OFFICE OF THE STATE COMPTROLLER

MEDICAID FRAUD DIVISION
ALERT

OSC Recommendations Yield Over $100 Million in Medicaid Savings

Posted on: June 10, 2025

Summary
As part of its oversight of the New Jersey Medicaid program, the New Jersey Office of the State Comptroller, Medicaid Fraud Division (OSC) conducted a series of audits of independent clinical laboratories that perform drug tests for Medicaid beneficiaries to determine whether they billed Medicaid in accordance with state and federal requirements. Approximately 260 labs participate in New Jersey's Medicaid program. From April 2021 through April 2025, these entities received Medicaid payments totaling almost $172 million for drug testing services.

From its audits, OSC identified systemic gaps that allowed labs to bill for excessive and often medically unnecessary drug tests, resulting in a substantial waste of Medicaid funds and subjecting beneficiaries to potentially unnecessary testing that lacked clinical justification. Based on those findings, OSC recommended that the Department of Human Services, Division of Medical Assistance and Health Services (DMAHS), the state entity that administers the Medicaid program, implement policy changes to prevent further excessive testing.

DMAHS implemented OSC's recommendations in April 2021. Since then, the New Jersey Medicaid program has saved a total of approximately $102.4 million, an average of more than $25 million per year. Savings will continue to accrue annually.

Uncovering Wasteful Test Practices

In OSC's audit of Ammon Analytical Laboratory (Ammon), OSC found that Ammon used "blanket" or one-size-fits-all drug test requisition forms, subjecting all patients to the same battery of drug tests regardless of their individual medical needs. Additionally, OSC found that Ammon and the substance use treatment providers who used Ammon's services had agreed upon a practice in which the providers would commonly request a medically unnecessary "definitive" test as the initial test, bypassing the lower cost "presumptive" test. Industry standard practice, however, recommends using the more expensive definitive tests only after an initial, lower cost presumptive test has indicated the presence of a substance. OSC found that these medically suspect practices significantly increased Medicaid costs and did not improve patient care. OSC also found

other laboratories had adopted the same wasteful practices.

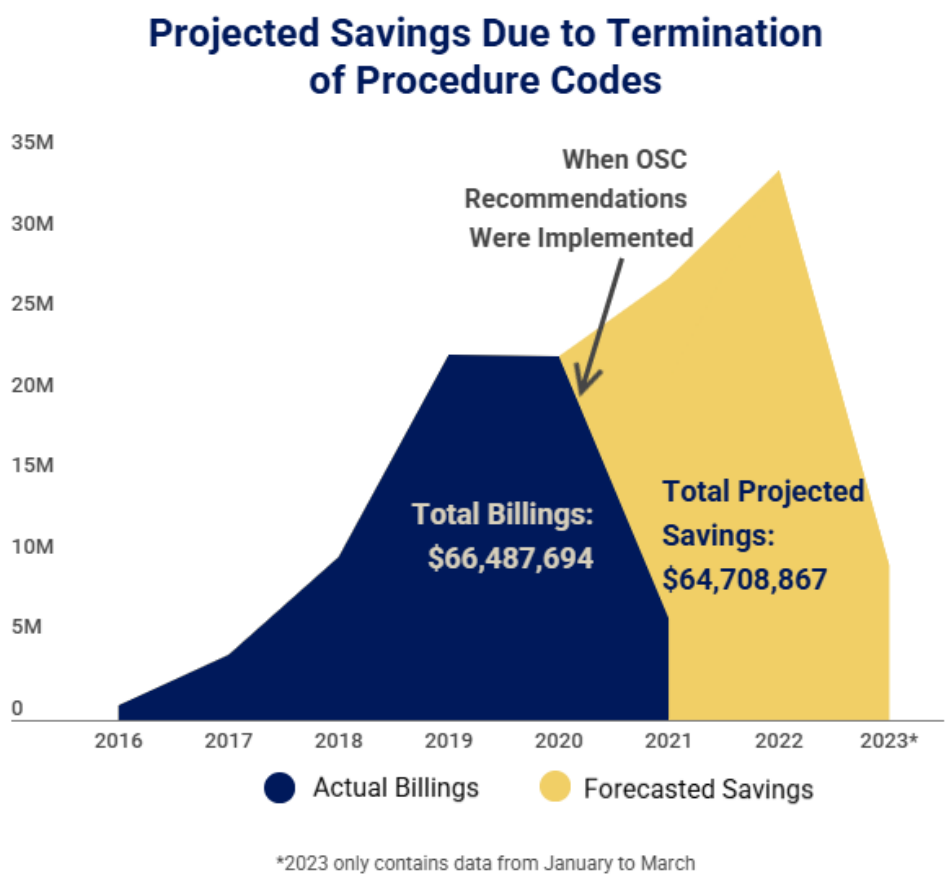
Adoption of OSC's Recommendations

After publishing the Ammon audit report in November 2018 and finding similar wasteful practices in other in-process lab audits, OSC notified DMAHS in July 2019 of these findings. In April 2020, OSC recommended that DMAHS eliminate the use of blanket test orders, limit presumptive testing to what was medically necessary, and prohibit definitive testing when initial presumptive screening tests were negative.

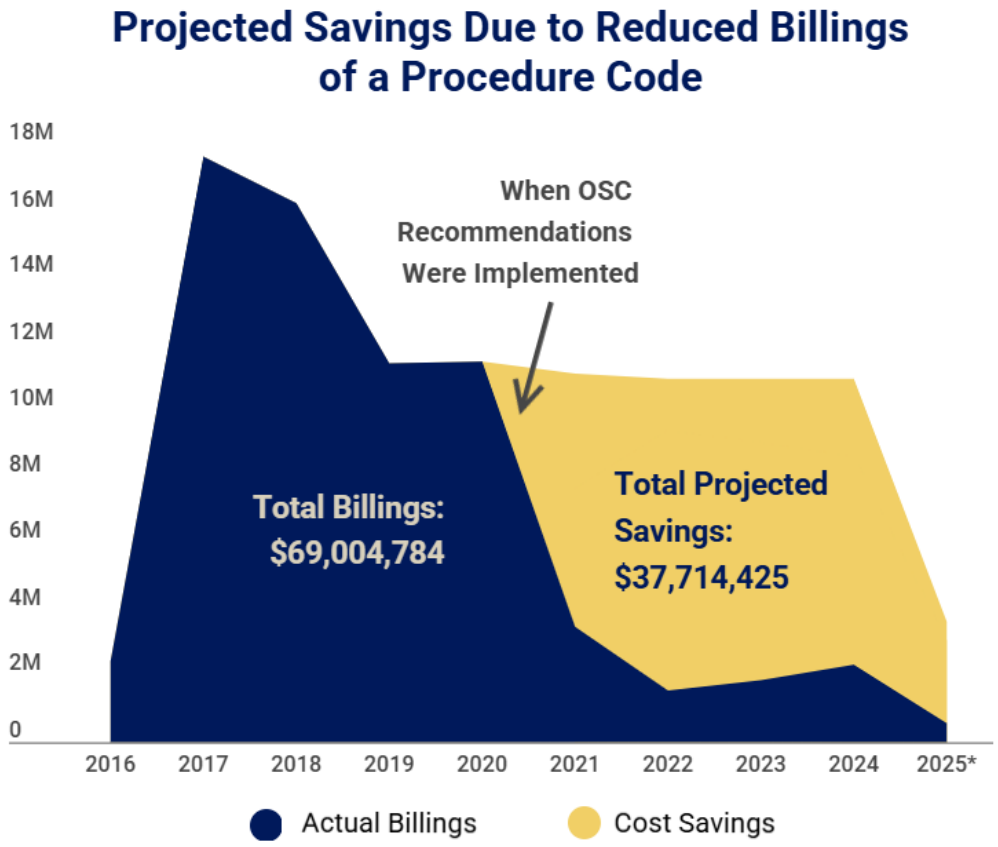
About one year later, DMAHS adopted policies that implemented the recommended changes. DMAHS did so by issuing a Newsletter (Volume 31, Number 07) with an effective date of April 1, 2021. The Newsletter prohibited labs from billing for blanket orders and imposed restrictions on how often a lab could bill drugs tests for each patient. The Newsletter also terminated presumptive and definitive drug tests that were for a high or an undefined number of drug classes. DMAHS issued a second Newsletter (Volume 31, Number 11) that barred labs from billing for a definitive test when there was not a prior presumptive test.

Over $102 Million in Projected Cost Savings

To determine how much money the changes saved due, OSC forecasted the amount that would have been billed had DMAHS not terminated the procedure codes. Using that approach, from April 2021, when the new policies went into effect, until March 2023, the two-year point at which this kind of estimate becomes less reliable, OSC estimates that the Medicaid program saved approximately $64.7 million.



In addition to the terminated codes, OSC observed a sharp decline in expenditures attributable to another definitive drug test referenced in the Newsletters. (This procedure code also allowed for a higher range of drug classes to be tested.) To estimate cost savings for that code, OSC compared the periods before and after DMAHS implemented these changes. Using that approach, OSC estimates that the program saved almost $770,000 per month from April 2021 to April 2025, which totals approximately $37.7 million in cost saving to date.



*2025 only contains data from January to early April

Combining these figures, OSC estimates that the Medicaid program has saved a total of approximately $102.4 million since April 2021 based on these changes. OSC expects that the Medicaid program will continue to realize significant cost savings attributable to the April 2021 programmatic changes in future years as long as the changed policy remains in effect.