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June 24, 2004

Antonia C. Novello, M.D., M.P.H., Dr. P.H.  
Commissioner  
Department of Health  
Corning Tower  
Empire State Plaza  
Albany, NY 12237

Re: Report 2004-F-5

Dear Dr. Novello:

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, we have followed up on the actions taken by officials of the Department of Health (Department) to implement the recommendations contained in our audit report, *Maintenance of the Medicaid Prescription Drug File* (Report 2001-S-58).

**Background, Scope and Objective**

The Department is responsible for maintaining the Medicaid Management Information System (MMIS) to enable accurate payment of Medicaid claims submitted by health care providers, such as pharmacies. For the fiscal year that ended December 31, 2003, Medicaid spent over \$4 billion on drug expenditures. MMIS uses a prescription drug file to pay pharmacies for dispensing prescription drugs to Medicaid recipients. To ensure that pharmacies are paid the correct rates for the drugs they provide and that the federal government is billed the correct amount for its share of the costs, it is important that data on the prescription drug file be accurate and up-to-date. This requires that the Department have procedures to maintain and monitor the accuracy of the prescription drug file; as well as formal policies on how retroactive drug price changes should be handled.

Our initial audit report, which was issued on December 24, 2002, examined the Department's policies and procedures for maintaining the prescription drug file used to reimburse pharmacies for prescription drugs dispensed to Medicaid recipients for the two-year period January 1, 2000 through December 31, 2001. Our report identified weaknesses in the Department's procedures for maintaining the prescription drug file and we estimated that the Department did not collect \$1.3 million in federal reimbursement for drugs during our audit period. The Department did not have formal policies for processing retroactive drug price changes. For a sample of 100 drugs, retroactive

drug price increases and decreases totaled \$12 million for the two-year period ended December 31, 2001. The objective of our follow-up, which was conducted in accordance with Generally Accepted Government Audit Standards, was to assess the extent of implementation, as of April 1, 2004 of the three recommendations included in our initial report.

### **Summary Conclusions and Status of Prior Audit Recommendations**

Of the three audit recommendations, two recommendations have been implemented and one was partially implemented.

### **Follow-Up Observations**

#### **Recommendation 1**

*Develop formal procedures to maintain the accuracy of the prescription drug file and periodically review and evaluate the information on the file to determine whether the file is accurate.*

Status - Implemented

Agency Action - Department officials stated that with the implementation of Phase I of the replacement Medicaid system (eMedNY) in November 2002, they do not need formal procedures to maintain the accuracy of the prescription drug file and we agree. Since eMedNY uses a more comprehensive file received directly from the Department's independent drug pricing clearinghouse, this eliminates the need for formal procedures to update the reference file for any adjustments. Additionally, Department officials provided us with examples of their reviews and evaluations for ensuring the accuracy of the prescription drug file.

#### **Recommendation 2**

*Seek recovery of the \$1.3 million from the federal government for family planning claims, as well as for all family planning claims before and after the audit period.*

Status - Partially Implemented

Agency Action - Department officials stated that they have reviewed the \$1.3 million in drug payments that we identified in our initial audit report and determined that 72.2 percent of these payments (totaling \$938,600) were handled correctly. The remaining 27.8 percent of these payments (totaling \$361,400) were corrected on the prescription drug file. However, the Department has not yet sought recovery from the federal government for this amount. Thus, we determined the recommendation to be only partially implemented.

**Recommendation 3**

*Develop a policy to address retroactive drug price changes.*

Status - Implemented

Agency Action - We were given an internal policy statement by Department officials that addressed retroactive price changes. The policy reflects the Department's current position that providers must submit adjusted claims to effect any retroactive price changes in their reimbursement from Medicaid.

Major contributors to this report were Ken Shulman, Bill Clynes, Don Paupini and Julie DeRubertis.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department and the Facility for the courtesies and cooperation extended to our auditor during this process.

Very truly yours,

Steven E. Sossei  
Audit Director

cc. Robert Barnes, Division of the Budget