

H. CARL McCALL  
STATE COMPTROLLER



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

Mr. Brian Wing  
Acting Commissioner  
Department of Social Services  
40 North Pearl Street  
Albany, NY 12243

Re: Report 96-F-16

Dear Mr. Wing:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we have reviewed the actions taken by the Department of Social Services (Department) as of May 3, 1996, to implement the recommendations contained in our prior audit report 94-S-5. Our prior report, issued October 31, 1994, reviewed the management controls established by the Department over the Medicaid drug rebate program.

### **Background**

In 1990, a national Medicaid drug rebate program was established by Federal legislation to reduce the cost of drugs prescribed for Medicaid recipients. The program became effective January 1, 1991, and is overseen by the Federal Health Care Financing Administration (HCFA). Under the rebate program, pharmacies dispensing drugs to Medicaid recipients are reimbursed by the appropriate state governments. The states then request rebates for each of these drugs from the drug manufacturers. For their drugs to be eligible for Medicaid reimbursement, drug manufacturers must agree to provide such rebates. Within the Department, responsibility for operating the drug rebate program and collecting rebates from manufacturers is charged to the Pharmacy Policy and Operations Unit in the Bureau of Primary Care and Ambulatory Policy. The Department collects about \$123 million a year in drug rebates.

### **Summary Conclusion**

In our prior audit, we found that improvements were needed to enhance the success of the program. We found that rebate requests sent to drug manufacturers were overstated. Additionally, because accurate accounting records were not maintained, the exact amount of the uncollected rebates was not known.

In our follow-up review, we found that Department officials have made progress in implementing our prior audit recommendations. For example, Department officials have developed,

but not yet fully implemented, an automated drug rebate accounting system that appears to meet the objectives of our recommendations.

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

Department officials have fully implemented one and partially implemented three of the recommendations from our prior audit report.

### **Follow-up Observations**

#### **Recommendation 1**

*Establish an automated rebate accounting system that provides sufficient detailed information on rebates requested, the rebates collected, and the outstanding rebates for each individual drug.*

**Status** - Partially Implemented

**Agency Action** - The Department has obtained the necessary computer equipment and software to install an automated rebate accounting system. Department officials anticipate this system to be operational by late 1996. Currently, the Department is testing the software and developing the various databases to be used and maintained by the system's computer programs.

The Department was able to acquire the software at no cost. The software was originally designed and developed by the State of Louisiana in conjunction with the University of New Orleans. Since HCFA funded the system's development, it instructed Louisiana to share the software with New York. The system is a personal computer system comprised of several databases. It consists of eight main functions: claims processing; data gathering; invoicing; collecting; tracking; resolving disputes; adjusting accounts; and, HCFA reporting.

#### **Recommendation 2**

*Determine the amount of the rebates that are outstanding and take action to resolve them.*

**Status** - Partially Implemented

**Agency Action** - According to the Department's records, about \$8 million in disputed rebates has been collected since the time of our audit. With the implementation of the new rebate accounting system, the Department should increase its effectiveness in collecting outstanding rebates. In addition, the Department is involved in demonstration projects with two private data marketing companies to determine whether additional rebates can be obtained from the top 20 drug manufacturers.

**Recommendation 3**

*Modify the rebate request computer programs so that subsequent adjustments and corrections can be processed.*

**Status** - Partially Implemented

**Agency Action** - The Department is in the process of implementing a fully automated rebate accounting system that includes a mechanism to adjust and correct rebates amounts. See Agency Action comments to Recommendation 1.

**Recommendation 4**

*Work with HCFA and the drug manufacturers to resolve the confusion relating to the classification of drug units.*

**Status** - Fully Implemented

**Agency Action** - Department officials have worked closely with the federal government to resolve this issue. Although the Federal Medicaid drug rebate program was established in 1990, HCFA did not issue its proposed regulations for this program until late 1995. These regulations stipulate how state governments and drug manufacturers should share and exchange information. HCFA's final regulations are anticipated to be released during 1996.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address the unresolved matters discussed in this report.

We wish to thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Robert H. Attmore  
Deputy Comptroller

cc: Patricia A. Woodworth