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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 16, 2007

Richard F. Daines, M.D.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Medicaid Payments to Pharmacy
Providers While Recipients Were
Hospitalized
Report 2006-S-97

Dear Dr. Daines:

According 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 audited Medicaid claims submitted by pharmacy providers during the five year period ended April 30, 2006.

A. Background

The Department of Health (Department) administers the State's medical assistance program (Medicaid) which was established under Title XIX of the federal Social Security Act to provide needy people with medical assistance. In New York State this program is funded jointly by the federal, State, and local governments. Its management information and claims processing functions are handled through the State's eMedNY system, which the Department implemented on March 24, 2005.

Under Part 86 of Title 10 of the New York State Health Code, Rules and Regulations, Section 86-1.18, the Department establishes all-inclusive hospital inpatient rates that generally cover the costs of medical services provided to Medicaid recipients during a hospital stay. The Medicaid payment rate for hospitals includes payment for all medical procedures and services, including pharmacy services. As such, no other payment should be made for services provided to these patients while they are hospitalized. For example, the costs of prescriptions filled by a hospital-based pharmacy and dispensed to a patient are included in the hospital's all-inclusive rate. However, it is allowable for pharmacy providers to bill separately for prescriptions written in preparation for a patient's discharge.

B. Audit Scope, Objective and Methodology

We audited selected Medicaid claims paid to hospital and community based pharmacy providers during the five-year period ended April 30, 2006. The objective of our audit was to determine if Medicaid made inappropriate payments to these pharmacy providers for patients that were hospitalized.

We did our audit according to generally accepted government auditing standards. During the audit period, we audited Medicaid claims submitted by pharmacy providers and processed by the Department. To accomplish our audit objective, we extracted questionable claims from the Medicaid payment file and verified the accuracy of the payments. We interviewed Department officials, reviewed applicable sections of federal and State laws and regulations, and examined the Department's relevant payment policies and procedures. We visited ten pharmacies (four hospital-based and six community-based) to review medical records and other supporting documentation. We selected these ten providers for review either because they had billed a large volume of Medicaid claims or because a high percentage of their claims were billed during the time recipients were hospitalized.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

During our audit period, we identified over \$73.5 million in Medicaid payments to hospital and community-based pharmacies while recipients were hospitalized. We reviewed medical records at ten selected pharmacy providers and found adequate documentation to support the separate Medicaid payments. For example, hospital-based pharmacies in our sample appropriately filled prescriptions for inpatients in preparation for their discharge. We also noted instances where prescriptions were written for patients scheduled for discharge but health complications subsequently extended these patients' hospital stays. The prescriptions were not dispensed until the revised discharge date. For the ten pharmacy providers we reviewed, we concluded the Medicaid payments for pharmacy services were appropriate.

We provided a draft copy of this report to Department officials for their review and comment. A complete copy of the Department's response is included as Appendix A.

Major contributors to the report include Ronald Pisani, Warren Fitzgerald, Dennis Buckley, Erica Akers, Christopher Morris, and Daniel Towle.

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

Sincerely yours,

Sheila Emminger
Audit Manager

cc: Lisa Ng, Division of the Budget
Stephen Abbott, Department of Health
Steve Sossei, OSC, SGA, Audit Director

DOH STATE OF NEW YORK
DEPARTMENT OF HEALTH

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Richard F. Daines, M.D.
Commissioner

June 8, 2007

Sheila A. Emminger, Audit Manager
Office of the State Comptroller
Division of State Services
State Audit Bureau
110 State Street, 11th Floor
Albany, New York 12236

Dear Ms. Emminger:

The Department of Health is pleased to note that the Office of the State Comptroller's draft audit report 2006-S-97 on "Inappropriate Pharmacy Payments for Hospitalized Medicaid Recipients" did not contain any recommendations.

Thank you for the opportunity to comment.

Sincerely,



Wendy Saunders
Chief of Staff

cc: Ms. Bachrach
Mr. Charbonneau
Mr. Griffin
Mr. Hart
Ms. Kerker
Ms. Napoli
Mr. Reed
Mr. Seward
Mr. Sheehan