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OFFICE OF THE STATE COMPTROLLER

April 10, 2008

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

Re: Report 2008-F-2

Dear Dr. Daines:

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 New York State Department of Health to implement the recommendations contained in our audit report, *Medicaid Prescription Drug Rebates* (Report 2005-S-51).

Background, Scope and Objective

The Department of Health (Department) administers the Medicaid program in New York State, and uses eMedNY, the State's Medicaid management information and claims processing system, to pay provider claims. In administering the pharmacy benefits portion of Medicaid, Department officials must cost effectively provide eligible recipients with adequate access to prescription drugs. Prescription drugs represent about 15 percent of the State's Medicaid spending. The State's Medicaid expense for prescription drugs was \$3.335 billion during the 2006-07 fiscal year. The Department has pursued two options available for controlling the costs of Medicaid prescription drugs: rebates from drug manufacturers and reduced reimbursement to dispensing pharmacies.

Our initial audit report, which was issued on September 6, 2006, examined the progress made by the Department in improving its rebate collection efforts. We found that some improvements had been made. However, the Department had not fully implemented its new system for billing, tracking and accounting for rebates. We recommended the Department complete the implementation of this system without further delay. We also examined other actions taken by the Department to reduce the overall cost of Medicaid prescription drugs. We found that several cost-saving measures had been initiated by the Department. However, we could not fully evaluate the impact of these measures, because they were still being developed and implemented at the time of our audit. The objective of

our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess, as of February 28, 2008, the extent of implementation of the two recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We determined Department officials implemented the two audit recommendations contained in our initial audit report.

Follow-up Observations

Recommendation 1

Continue to implement the new accounting system used for rebate billing and collection.

Status - Implemented

Agency Action - The automated system used for rebate billing and collection has been fully implemented. The Department receives updated drug rebate and supplier information from the Centers for Medicare and Medicaid Services. The process associated with the new accounting system includes steps to check the accuracy of rebate billings and collections. Unpaid portions of partially paid invoices for rebates can be determined and pursued. The rebate information is billed quarterly; and summarized quarterly and annually. There are reports showing open and disputed invoices, as well as interest associated with those unpaid balances. There are also procedures to handle the resolution of disputed rebates.

Recommendation 2

Work to implement the cost savings measures discussed in this report without further delay.

Status - Implemented

Agency Action - The Department has implemented several cost savings measures. A preferred drug program was developed to increase the use of less expensive drugs. This program requires prior approval for all drugs not on the preferred drug list. The Department has collected additional manufacturer rebates as a result of participation in a multi-state purchasing pool. The Department has also implemented a state maximum allowable cost for certain drugs. At the time of our follow-up review, the Department was preparing a report to the State Legislature on the results of these cost savings measures. However, these results were not available for our review.

Major contributors to this report were Bill Clynes, Don Collins and Mark Bruenig.

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

Very truly yours,

Sheila Emminger
Audit Manager

cc: Stephen Abbott (DOH)
Lisa Ng (DOB)
Steve Sossei (OSC)