DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

APR 1 0 2008

Report Number: A-07-07-03097

Ms. Vivianne Chaumont
Director
Nebraska Division of Medicaid and Long Term Care
301 Centennial Mall South
Lincoln, Nebraska 68509

Dear Ms. Chaumont:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled "Follow-Up Audit of the Medicaid Drug Rebate Program in Nebraska." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to call me, or contact Greg Tambke, Audit Manager, at (573) 893-8338, extension 30, or through e-mail at Greg.Tambke@oig.hhs.gov. Please refer to report number A-07-07-03097 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF THE MEDICAID DRUG REBATE PROGRAM IN NEBRASKA

Daniel R. Levinson
Inspector General

April 2008
A-07-07-03097

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Medicaid drug rebate program, which began in 1991, is set forth in section 1927 of the Social Security Act. For a manufacturer's covered outpatient drugs to be eligible for Federal Medicaid funding under the program, the manufacturer must enter into a drug rebate agreement with the Centers for Medicare & Medicaid Services (CMS), and pay quarterly rebates to the States. CMS, the States, and drug manufacturers each undertake certain functions in connection with the drug rebate program. In Nebraska, the Division of Medicaid and Long Term Care (the State agency) administers the Medicaid drug rebate program.

In 2005, we issued a report on the results of audits of the Medicaid drug rebate programs in 49 States and the District of Columbia (A-06-03-00048). Those audits found that only four States had no weaknesses in accountability for and internal controls over their drug rebate programs. As a result of the weaknesses, we concluded that States lacked adequate assurance that all of the drug rebates due to the States were properly recorded and collected. Additionally, CMS did not have reliable information from the States to properly monitor the drug rebate program.

In our previous audit of the Nebraska drug rebate program (A-07-03-04013), we determined that the State agency did not have sufficient controls with regard to recording receivables and reconciling the Form CMS-64.9R and the general ledger. We also determined the State agency did not have sufficient controls regarding interest (accrual, collections, and reporting) and resolving disputes.

We recommended the State agency develop and follow policies and procedures to:

- develop a subsidiary account receivables system that details all drug rebate transactions, including adjustments;
- reconcile the general ledger control account to the subsidiary ledgers and to the Form CMS-64.9R;
- reconcile the quarterly cash receipts log to the Form CMS-64.9R;
- estimate and accrue interest on all overdue rebate balances;
- report interest collections on the Form CMS-64 Summary Sheet; and
- utilize the State's hearing mechanism to settle disputes after 60 days.

The State agency generally disagreed with our findings but concurred with reporting the interest collections on the Form CMS-64 Summary Sheet and utilizing the State's hearing mechanism to settle disputes after 60 days.

This current review of the Nebraska drug rebate program is part of a nationwide series of reviews conducted to determine whether States have addressed the weaknesses in accountability for and internal controls over their drug rebate programs found in the previous reviews. Additionally, because the Deficit Reduction Act of 2005 required States, as of January 2006, to begin collecting rebates on single source drugs administered by physicians, this series of reviews will also determine whether States have complied with the new requirement.

OBJECTIVES

Our objectives were to determine whether the State agency had (1) implemented the recommendations made in our previous audit of the Nebraska drug rebate program and (2) established controls over collecting rebates on single source drugs administered by physicians.

SUMMARY OF FINDINGS

The State agency partially corrected weaknesses reported in our previous audit. In particular, the State agency corrected the weakness reported on the dispute resolution hearing mechanism. However, for the remaining weaknesses the State agency's written policies and procedures lacked sufficient detail.

Specifically, the State agency did not implement recommendations to develop written policies and procedures to:

- develop a subsidiary accounts receivable system that details all drug rebate transactions, including adjustments;
- reconcile the general ledger to the subsidiary accounts and to the Form CMS-64.9R;
- reconcile the quarterly cash receipts log to the Form CMS-64.9R;
- estimate and accrue interest on all overdue rebate balances; and
- report interest received on the Form CMS-64 Summary Sheet instead of as a rebate receivable.

Additionally, the State agency did not establish controls over and accountability for collecting rebates on single source drugs administered by physicians.

RECOMMENDATIONS

We continue to recommend the State agency develop and follow policies and procedures that include:

- ensuring that all adjustments are traceable to the subsidiary accounts receivable system;

- reconciling the general ledger account to the subsidiary accounts and to the Form CMS-64.9R using actual adjustments supported in the system;

- documenting procedures for reconciling the quarterly cash receipts log to the Form CMS-64.9R;

- estimating and accruing interest on all overdue rebate balances; and

- reporting interest received on the Form CMS-64 Summary Sheet instead of as a rebate receivable.

We also recommend the State agency begin collecting drug rebates on single source drugs administered by physicians, as required.

STATE AGENCY'S COMMENTS AND OFFICE OF INSPECTOR GENERAL'S RESPONSE

In written comments on our draft report, the State agency agreed with all of our findings and recommendations except for the finding and recommendation regarding the reconciliation of the general ledger to subsidiary accounts and to Form CMS-64.9R. For the other findings and recommendations, the State agency's comments included implementation and corrective actions proposed and anticipated dates of completion. The State agency's comments are included in their entirety as the Appendix.

After reviewing the State agency's comments, we continue to support our findings and recommendations.

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INTRODUCTION

BACKGROUND

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to certain low-income individuals and individuals with disabilities. The Federal and State governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Drug Rebate Program

The Medicaid drug rebate program, which began in 1991, is set forth in section 1927 of the Act. For a manufacturer's covered outpatient drugs to be eligible for Federal Medicaid funding under the program, the manufacturer must enter into a drug rebate agreement with CMS and pay quarterly rebates to the States. CMS, the States, and drug manufacturers each undertake certain functions in connections with the drug rebate program. In Nebraska, the Division of Medicaid and Long Term Care (the State agency) administers the Medicaid drug rebate program.

Pursuant to section II of the rebate agreement and section 1927(b) of the Act, manufacturers are required to submit a list to CMS of all covered outpatient drugs and to report each drug's average manufacturer price and, where applicable, its best price. Based on this information, CMS calculates a unit rebate amount for each covered outpatient drug and provides the amounts to States on a quarterly basis.

Section 1927(b)(2)(A) of the Act requires States to maintain drug utilization data that identifies, by National Drug Code (NDC), the number of units of each covered outpatient drug for which the States have reimbursed providers. The number of units is applied to the unit rebate amount to determine the actual rebate amount due from each manufacturer. Section 1927(b)(2)(A) of the Act requires States to provide the drug utilization data to CMS and the manufacturer. States also report drug rebate accounts receivable data on Form CMS-64.9R. This is part of Form CMS-64, "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program," which summarizes actual Medicaid expenditures for each quarter and is used by CMS to reimburse States for the Federal share of Medicaid expenditures.

Physician-Administered Drugs

Section 6002(a) of the Deficit Reduction Act (DRA) amended section 1927 of the Act and requires States, as of January 1, 2006, to collect and submit utilization data for single source drugs administered by physicians so that States may obtain rebates for the drugs.[1] Single source drugs are produced by only one manufacturer and do not have a generic equivalent.

[1]This provision of the DRA expands the requirement to certain multiple source drugs administered by physicians after January 1, 2008.

In Nebraska, physician-administered drugs are billed to the State Medicaid program on a physician claim form. The State utilizes the CMS 1500 form, which uses the procedure codes that are part of the Healthcare Common Procedure Coding System. The NDC is not included on the physician claim form. The procedure code identifies a drug by its active ingredient(s) and identifies the number of drug units (billing units) allowed per reimbursement for that procedure code. Because rebates are calculated and paid based on NDCs, each procedure code must be converted to an NDC. Additionally, the billing units for a procedure code may differ from the units used for rebate purposes (e.g., grams versus liters). Therefore, to determine rebates, the procedure codes must be converted into NDCs for single source drugs, and procedure code billing units must be converted into equivalent NDC billing units.

Prior Office of Inspector General Reports

In 2005, we issued a report on the results of audits of the Medicaid drug rebate programs in 49 States and the District of Columbia.[2] Those audits found that only four States had no weaknesses in accountability for and internal controls over their drug rebate programs. As a result of the weaknesses, we concluded that States lacked adequate assurance that all of the drug rebates due to the States were properly recorded and collected. Additionally, CMS did not have reliable information from the States to properly monitor the drug rebate program.

In our previous audit of the Nebraska drug rebate program, we determined that the State agency lacked sufficient internal controls with regard to the Medicaid drug rebate program as required by Federal rules and regulations.[3] Areas that lacked sufficient internal controls included:

- reconciling accountings receivable;
- form CMS-64.9R and general ledger reconciliations;
- interest accrual, collection, and reporting; and
- dispute resolution.

We recommended the State agency develop and follow policies and procedures to:

- develop a subsidiary account receivables system that details all drug rebate transactions, including adjustments;
- reconcile the general ledger control account to the subsidiary ledgers and to the Form CMS-64.9R;
- reconcile the quarterly cash receipts log to the Form CMS-64.9R;

[2]"Multistate Review of Medicaid Drug Rebate Programs" (A-06-03-00048), issued July 6, 2005; Arizona was not included because it did not operate a drug rebate program.

[3]"Audit of the Medicaid Drug Rebate Program in Nebraska" (A-07-03-04013), issued June 9, 2003.

- estimate and accrue interest on all overdue rebate balances;
- report interest collections on the Form CMS-64 Summary Sheet; and
- utilize the State's hearing mechanism to settle disputes after 60 days.

The State agency generally disagreed with our findings but concurred with reporting the interest collections on the Form CMS-64 Summary Sheet and utilizing the State's hearing mechanism to settle disputes after 60 days.

Nebraska Drug Rebate Program

The State agency is responsible for performing all drug rebate program functions. The responsibilities of handling the program are split within the State agency between the Pharmacy Department and the Financial Services department. The Pharmacy Department is responsible for receiving the provider claims and developing the crosswalks used to convert billing data into rebate information. The Financial Services Department is responsible for invoicing, collecting receipts and preparing the Form CMS-64 reports.

The State agency reported an outstanding drug rebate balance of $9,148,820 on the June 30, 2006, Form CMS-64.9R. However, $1,195,263 of this amount related to quarterly billings and was not past due as of June 30, 2006. Of the remaining $7,953,557 that was past due, $5,075,812 was more than 1 year past due. For the fiscal year ended June 30, 2006, the State agency reported rebate billings of approximately $48,583,145 and collections of $56,391,441.

This current review of the Nebraska drug rebate program is part of a nationwide series of reviews conducted to determine whether States have addressed the weaknesses in accountability for and internal controls over their drug rebate programs found in the previous reviews. Additionally, because the DRA requires States as of January 2006 to begin collecting rebates on single source drugs administered by a physician, this series of reviews will also determine whether States have complied with the new requirement.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine whether the State agency had (1) implemented the recommendations made in our previous audit of the Nebraska drug rebate program and (2) established controls over collecting rebates on single source drugs administered by physicians.

Scope

We reviewed the State agency's current policies, procedures and controls over the drug rebate program and the accounts receivable data reported on the Form CMS-64.9R as of June 30, 2006.

We conducted fieldwork at the State agency, located in Lincoln, Nebraska, during August and September 2007.

Methodology

To accomplish our objectives, we:

- reviewed section 1927 of the Act, §6002(a) of the DRA, CMS guidance issued to State Medicaid directors, and other information pertaining to the Medicaid drug rebate program;

- reviewed the previous Office of Inspector General (OIG) report concerning the drug rebate program in Nebraska;

- reviewed the policies and procedures related to the State agency's drug rebate accounts receivable system;

- interviewed State agency officials to determine the policies, procedures, and controls that related to the Medicaid drug rebate program;

- reviewed copies of Form CMS-64.9R for the period July 1, 2005, through June 30, 2006;

- reviewed accounts receivable records of interest payments received for the quarters ended March 30 and June 30, 2006;

- interviewed State agency officials to determine the processes used in converting physician services claims data into drug rebate data related to single source drugs administered by physicians; and

- reviewed rebate billings and reimbursements for procedure codes related to single source drugs administered by physicians for the period January 1 through June 30, 2006.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATION

The State agency partially corrected weaknesses reported in our previous audit. In particular, the State agency corrected the weakness reported on the dispute resolution hearing mechanism. However, for the remaining weaknesses the State agency's written policies and procedures lacked sufficient detail.

Specifically, the State agency did not implement recommendations to develop written policies and procedures to:

- develop a subsidiary accounts receivable system that details all drug rebate transactions, including adjustments;
- reconcile the general ledger to the subsidiary accounts and to the Form CMS-64.9R;
- reconcile the quarterly cash receipts log to the Form CMS-64.9R;
- estimate and accrue interest on all overdue rebate balances; and
- report interest received on the Form CMS-64 Summary Sheet instead of as a rebate receivable.

Additionally, the State agency did not establish controls over and accountability for collecting rebates on single source drugs administered by physicians.

IMPLEMENTATION OF PRIOR RECOMMENDATIONS

In our prior audit of the Nebraska drug rebate program we determined that the State agency did not have sufficient controls with regard to reconciling receivables or Form CMS-64.9R and the general ledger. We also determined the State agency did not have sufficient controls regarding interest (accrual, collections, and reporting) and resolving disputes.

Since then, the State agency has taken action to correct weaknesses related to our prior findings. However, in some cases the action taken was not sufficient to correct the problem, nor were policies and procedures sufficiently documented. On the other hand, the State Legislature has acted to formalize policy and procedures for making the Medicaid hearing mechanism available to manufacturers for disputes lasting more than 60 days.

Developing a Subsidiary Accounts Receivable System

In our prior audit we noted that the adjustment figures reported on the Form CMS-64.9R were not supported by the accounts receivable system. In its comments on our prior audit finding, the State agency indicated that each quarter's transactions were supported by detailed information on the manufacturers' various Drug Rebate Invoice Reports. During this current audit, we found that the State agency continued to maintain a detailed subsidiary accounts receivable system to

bill and report drug rebates; however, adjustment figures reported on the Form CMS-64.9R were still not supported by that system. The State agency used a Medicaid Drug Claims Rebate Report (MDCR), generated from the Subsidiary Accounts Receivable System, to determine the figures reported on the Form CMS-64.9R. However, we noted that this report did not support the amount reported for adjustments. The amounts reported for adjustments on the Form CMS-64.9R represented not actual adjustments made, but rather, the variance between the ending balance and the beginning balance, with consideration for rebates invoiced and rebates received during the quarter. As a result, the State agency did not have reasonable assurance that receivable balances reported to CMS were accurate.

Federal regulations at 42 CFR § 433.32 require that the State agency ". . . (a) [m]aintain an accounting system and supporting fiscal records to assure that claims [reported on the CMS-64] for Federal funds are in accord with applicable Federal requirements . . . ." Federal regulations at 45 CFR § 92.20(a) also state: ". . . Fiscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient to . . . establish that such [Medicaid] funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

State agency officials indicated that the subsidiary accounts receivable system had not undergone any changes since the prior OIG audit. The following table represents the differences noted for adjustments between the Form CMS-64.9R and the MDCR report.

Adjustment Line Differences Between CMS-64.9R & MDCR Report				
Quarter Ending	**9/30/2005**	**12/31/2005**	**3/31/2006**	**6/30/2006**
Total per Accounts Receivable - MDCR Report	$ (10,507,180.31)	$ 609,294.18	$ 340,417.41	$ 3,600,057.61
As reported on CMS-64.9R	$ (10,465,757.00)	$ 613,338.00	$ 345,093.00	$ 3,608,095.00
Difference	**$ (41,423.31)**	**$ (4,043.82)**	**$ (4,675.59)**	**$ (8,037.39)**

We determined that the State agency was backing into the adjustment line of the Form CMS-64.9R, rather than pulling the adjustments from the MDCR report. That is, the State agency used a calculation to determine the adjustments, instead of relying upon the MDCR report to make those adjustments in accordance with Federal requirements. In light of the fact that the adjustments found in the MDCR report did not support the adjustments reported to CMS on the Form CMS-64.9R, the State agency did not have reasonable assurance that the drug rebate receivables reported to CMS were accurate.

Reconciliation of General Ledger to Subsidiary Accounts and to Form CMS-64.9R

In our prior audit we noted that the State agency did not perform reconciliations to verify the accuracy of the uncollected rebate balance reported on the Form CMS 64.9R, as required by Federal regulations. Additionally, it did not reconcile the general ledger accounts receivable control account balance to the detailed subsidiary accounts receivable balance. In its comments on our prior audit finding, the State agency stated that the general ledger control account could be reconciled to the subsidiary ledgers at any point in time. During this current audit, we noted

that the State agency relied on the MDCR report to post drug rebate receivables and only performed total balance due verifications from the MDCR report to the subsidiary ledger. Thus, the State agency could not perform a full reconciliation because its subsidiary system was unable to provide accurate detail of adjustments made during the quarter.

Federal regulations at 42 CFR § 433.32 require that the State agency ". . . (a) [m]aintain an accounting system and supporting fiscal records to assure that claims [reported on the CMS-64] for Federal funds are in accord with applicable Federal requirements . . . ." Federal regulations at 45 CFR § 92.20(a) also state: ". . . Fiscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient to . . . establish that such [Medicaid] funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Without routine reconciliations, the State agency did not have reasonable assurance that the drug rebate receivables information reported to CMS was accurate.

Reconciling Rebate Collections

In our prior audit we noted that although the State agency reconciled the rebate collections on the cash receipts log to the collections reported on the Form CMS 64.9R, the State agency did not formalize this reconciliation in its policies and procedures. In its comments on our prior audit finding, the State agency stated that the recommendation was contrary to our finding because it did perform a reconciliation of rebate collections. However, our prior report stated that the reconciliations were not included in the State agency's formal policies and procedures, and as of the end of our fieldwork for this current audit, that statement remained valid for the Nebraska drug rebate program. During this current audit, we found that the State agency continued to reconcile the rebate collections on the cash receipts log to the collections reported on the Form CMS-64.9R. However, it still had not sufficiently documented the procedures to provide a full description of the activities involved in reconciling rebates collections.

Federal regulations at 42 CFR § 433.32 require that the State agency ". . . (a) [m]aintain an accounting system and supporting fiscal records to assure that claims [reported on the CMS-64] for Federal funds are in accord with applicable Federal requirements . . . ." Federal regulations at 45 CFR § 92.20(a) also state: ". . . Fiscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient to . . . establish that such [Medicaid] funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Without developing a full written description of the procedures for reconciling the rebates received, the State agency runs the risk that it will not accurately review the cash logs and deposits, which could create errors in the recording and posting of payments.

Estimating and Accruing Interest

In our prior audit we noted that the State agency did not calculate and accrue interest for late or disputed payments as required by Federal regulations, nor did it make significant efforts to collect from manufacturers who did not voluntarily remit interest owed. In its comments on our prior audit finding, the State agency stated that it collected and reported interest on settled

disputes and late rebate payments, but added that it did not regard interest on disputed rebates amounts as owed until settlement had been determined. During this current audit, we found that the State agency had implemented policies and procedures regarding the estimation and accrual for interest on overdue rebate balances. However, the procedures lacked sufficient detail to assign responsibility and detail how interest should be calculated and accrued.

Federal regulations at 42 CFR § 433.32 require that the State agency ". . . (a) [m]aintain an accounting system and supporting fiscal records to assure that claims [reported on the CMS-64] for Federal funds are in accord with applicable Federal requirements . . . ." Federal regulations at 45 CFR § 92.20(a) also state: ". . . Fiscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient to . . . establish that such [Medicaid] funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

Without developing adequate policies and procedures for estimating and accruing interest, the State agency runs the risk that it will incorrectly calculate interest owed by labelers.

Interest Reporting

In our prior report we noted that the State agency did not report interest revenue received as required by Medicaid rules. In its comments on our prior audit finding, the State agency concurred with our finding and indicated that it would implement revised procedures. However, during this current audit we noted that the State agency's current procedures for reporting interest revenue derived from rebate collections are inadequate. Its current procedures caused rebate receivables to be understated and rebate collections to be overstated. Nevertheless, the State agency reported interest collections with rebates on the Form CMS-64.9R; consequently, the State agency did not have a reasonable assurance that the receivable balances reported to CMS were accurate. As of September 2007, the total interest amount collected with rebates from the start of calendar year 1991 through the second quarter of calendar year 2006 totaled $110,965.

The State Medicaid Manual §2500.1 instructs the States to prepare a Form CMS-64 Summary Sheet reporting the Federal share of interest received on drug rebate collections. However, the State agency has included interest received with rebate collections on the Form CMS-64.9R. As a result, interest revenue reported on the Form CMS-64.9R has caused receivables to be understated.

The State agency implemented the previous recommendation of reporting interest collections on the Form CMS-64 Summary Sheet; however, the interest reported was incorrect and the State agency continued to report interest received on the Form CMS-64.9R. On the Form CMS-64 Summary Sheet, the State agency reported total interest charges rather than the Federal share of interest received as required. Review of the State Medicaid Manual and discussions with CMS officials indicated that the State agency should have reported the Federal share of interest received related to Medicaid drug rebates on the Form CMS-64 Summary Sheet.

PHYSICIAN-ADMINISTERED SINGLE SOURCE DRUGS

The State agency did not have sufficient controls over collecting rebates on single source drugs administered by physicians. The State agency has prepared crosswalks for 28 procedure codes to be used to prepare rebates for the single source physician-administered drugs; however, the State agency is still working to implement these crosswalks into its rebate program. The State agency did prepare a one-time billing for one physician-administered drug during 2005; however, since then it has not submitted any additional rebates to the drug labelers.

The DRA amended section 1927(a) of the Act by adding the requirement for submission of utilization data for certain physician-administered drugs. The DRA § 6002 added section 1927(a)(7) to the Act requiring that States collect rebates on single source physician-administered drugs. The section requires that the States begin submitting rebate invoices for single source physician-administered drugs by January 1, 2006.

The State agency stated that it planned to prepare a catch-up billing in November 2007, which would include all claims dating back to January 2006. After the catch-up billing had been completed, the State agency would start billing for rebates on quarterly basis. The State agency reimbursed physicians $1,550,196 for rebate eligible physician administered drugs billed during the 6 months ended June 30, 2006.

RECOMMENDATIONS

We continue to recommend the State agency develop and follow policies and procedures that include:

- ensuring that all adjustments are traceable to the subsidiary accounts receivable system;
- reconciling the general ledger control account to the subsidiary accounts and to the Form CMS-64.9R using actual adjustments supported in the system;
- documenting procedures for reconciling the quarterly cash receipts log to the Form CMS-64.9R;
- estimating and accruing interest on all overdue rebate balances; and
- reporting interest received on the Form CMS-64 Summary Sheet instead of as a rebate receivable.

We also recommend the State agency begin collecting drug rebates on single source drugs administered by physicians, as required.

STATE AGENCY'S COMMENTS

In written comments on our draft report, the State agency agreed with all of our findings and recommendations except for the finding and recommendation regarding the reconciliation of the general ledger to subsidiary accounts and to Form CMS-64.9R. For the other findings and recommendations, the State agency's comments included implementation and corrective actions proposed and anticipated dates of completion.

The State agency did not agree with the finding regarding the reconciliation of the general ledger to subsidiary accounts and to Form CMS-64.9R. The State agency stated that it was able to perform total balance due verifications of the general ledger to the subsidiary ledger.

The State agency's comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

After reviewing the State agency's comments, we continue to support our findings and recommendations. With respect to our second recommendation, with which the State agency did not agree, we acknowledge that the State agency was able to verify the total balance verification between the general ledger and the subsidiary ledger and to the Form CMS-64.9R. However, as indicated in our draft report, the State agency was unable to verify that the amounts reported on the Form CMS-64.9R for adjustments were accurate. Therefore, the State agency continues to be unable to perform a full reconciliation and does not have reasonable assurance that the drug rebate receivables information reported to CMS was accurate.

APPENDIX

DHHS
Nebraska Department of Health and Human Services

Division of Medicaid and Long-Term Care

State of Nebraska
Dave Heineman, Governor

March 27, 2008

Patrick L Cogley
Regional Inspector General for Audit Services
Region VII
601 East 12th Street
Kansas City, MO 64106

RE: A-07-07-03097

Dear Mr. Cogley:

The Department of Health and Human Services (DHHS) is providing these comments in response to your recommendations in the report entitled "Follow-up Audit of the Medicaid Drug Rebate Program in Nebraska." DHHS's responses to the recommendation are:

1. Developing a Subsidiary Accounts Receivable System -

The Department agrees that the subsidiary accounts receivable system should support the Form CMS 64-9R. Since the previous audit, a new report had been created to provide this information. The Department will ensure that the current quarter CMS 64 Report, due April 30, 2008, will be correct.

2. Reconciliation of General Ledger to Subsidiary Accounts and to Form CMS 64-9R.

The Department does not agree with this finding because, as indicated in the report of the finding, the OIG has acknowledged that the Department was able to perform total balance due verifications. Because the subsidiary system is the basis for the totals, the Department did accomplish this reconciliation.

3. Reconciling Rebate Collections -

The Department agrees that it has not documented the procedures necessary to provide a full description of the activities involved in reconciling rebates collections. However, the person responsible is performing this task each month. Since the staff responsible for completing these procedures are no longer with the Department, this task had to be reassigned. It will be completed by December 31, 2008.

4. Estimating and Accruing Interest -

The Department agrees that it has not documented the procedures necessary to assign responsibility and detail on how interest should be calculated and accrued. However, the Department has implemented the necessary process to accrue interest. Since the staff responsible for completing these procedures are no longer with the Department, this task had to be reassigned. It will be completed by December 31, 2008.

5. Interest Reporting -

The Department agrees with this recommendation and has implemented reporting procedural changes effective on the October-December 2007 quarterly report. This recommendation was completed January 31, 2008.

6. Physician-Administered Single Source Drugs -

The Department agrees with this recommendation for capturing the National Drug Code (NDC) on single source drugs. Under the waiver approved by the CMS Central office, changes to the MMIS system are being implemented for capturing the NDC on practitioner claims effective late March 2008 and on hospital claims by July 2008.Those captured NDCs will be used to invoice the manufacturers for rebates. In addition, by capturing and crosswalking J codes to NDCs the State has invoiced manufacturers for rebates for single source drugs twice, with the invoices created in November of 2007, which included claims paid beginning in 2006, and again in February of 2008.

DHHS requests that these comments be included in the body of the final report. If you have questions, please contact Willard Bouwens, Finance Administrator at 402-471-8072.

Sincerely,

Vivianne M. Chaumont, Director
Division of Medicaid & Long-Term Care
Department of Health and Human Services

cc: Willard Bouwens