DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

Report Number: A-06-07-00071

May 20, 2008

Ms. Carolyn Ingram
Medicaid Director
Human Services Department, Medical Assistance Division
P.O. Box 2348
Santa Fe, New Mexico 87504-2348

Dear Ms. Ingram:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Follow-Up Audit of the Medicaid Drug Rebate Program in New Mexico." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Paul Chesser, Audit Manager, at 501-225-8114 or through e-mail at Paul.Chesser@oig.hhs.gov. Please refer to report number A-06-07-00071 in all correspondence.

Sincerely,

Gordon L. Sato

Gordon L. Sato
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
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Cc: Elaine Olah
Administrative Services Division Director
Human Services Department, Medical Assistance Division
P.O. Box 2348
Santa Fe, New Mexico 87504-2348

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

FOLLOW-UP AUDIT OF THE MEDICAID DRUG REBATE PROGRAM IN NEW MEXICO

Daniel R. Levinson
Inspector General

May 2008
A-06-07-00071

Office of Inspector General

http://oig.hhs.gov

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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 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 New Mexico, the Human Services Department (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 New Mexico drug rebate program, we determined that the State agency had not devoted adequate resources to, and had not established adequate controls over, its drug rebate program (A-06-03-00012). Areas that lacked sufficient controls included (1) the accounts receivable system, (2) interest accrual and collection, (3) dispute resolution, (4) Form CMS-64.9R reconciliation, and (5) segregation of duties for the receipt of drug rebate funds. We recommended that the State agency devote more resources to the drug rebate program and develop formal policies, procedures, and controls that, at a minimum, would:

- create a sufficiently detailed subsidiary accounts receivable system with a corresponding control account for accounts receivable;
- account for the interest related to late or disputed rebate payments;
- monitor disputed rebate amounts, including appropriate use of the hearing mechanism prescribed in the rebate agreement between CMS and the manufacturers;
- accurately report drug rebate collections on Form CMS-64.9R; and
- segregate the duties for receipt of drug rebate funds.

The State agency agreed with our findings and recommendations, with one exception: the segregation of duties related to drug rebate funds.

This current review of New Mexico 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 New Mexico drug rebate program and (2) established controls over collecting rebates on single source drugs administered by physicians.

SUMMARY OF FINDINGS

The State agency implemented the recommendations from our prior audit that related to devoting more resources to the drug rebate program and implementing a sufficiently detailed accounts receivable system. The State agency partially implemented the recommendations that related to interest, dispute resolution, and Form CMS-64.9R reconciliation. The State agency did not implement the recommendation related to segregation of duties for the receipt of drug rebate funds. The State agency established controls over collecting rebates for single source drugs administered by physicians.

- **Interest and dispute resolution.** The State agency partially implemented our recommendations related to interest and dispute resolution by establishing formal policies and procedures for interest and dispute resolution, including use of the hearing mechanism. In addition, in February 2007, the State agency converted its accounts receivable system to the Drug Rebate Analysis and Management System (DRAMS), which provides a sufficiently detailed accounts receivable system necessary to track interest calculations and monitor outstanding disputes. However, the State agency did not update the accounts receivable data in the DRAMS for periods prior to the conversion. Until the accounts receivable data is updated, the State agency cannot be assured that all interest due the State agency has been received and that all rebate amounts that have been disputed by manufacturers have been resolved.

- **Form CMS-64.9R reporting.** The State agency partially implemented our recommendation related to Form CMS-64.9R reconciliation by establishing policies and procedures for reporting drug rebate accounts receivable data on the Form CMS-64.9R based on accounts receivable reports in DRAMS. However, the State agency reconciled only the amounts reported as invoiced and collected for the quarter ended September 30, 2007. The State agency did not report any adjustments and did not reconcile the ending balance to accounts receivable records. A State agency official stated that the reported outstanding balance was not reconciled to accounts receivable records due to unreliable data for periods prior to the DRAMS conversion. As a result, the State agency could not assure the accuracy of the outstanding balance reported on Form CMS-64.9R.

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- **Segregation of duties.** The State agency did not implement our recommendation to establish written policies and procedures that segregate duties related to the receipt of drug rebate funds. One staff member opened the mail, prepared the deposit, and posted the deposit to the general ledger. A State agency official attributed the lack of segregation of duties to staff shortage and turnover. As a result, the potential for fraud, waste, or abuse of drug rebate funds remained.

RECOMMENDATIONS

We recommend that the State agency (1) update the accounts receivable data in DRAMS for periods prior to the conversion and pursue any unpaid rebate balances, including interest, and (2) follow procedures to reconcile all amounts reported on the Form CMS-64.9R to its accounts receivable records. We also reiterate our recommendation that the State agency implement policies, procedures, and controls to segregate duties for the receipt of drug rebate funds.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report, the State agency said that it (1) was updating accounts receivable data for State fiscal years (FY) 2002 through 2007 and would begin efforts to collect unpaid balances for these periods beginning June 30, 2008, (2) will reconcile the June 30, 2008, CMS 64.9R to its updated accounts receivable data, and (3) had implemented procedures to ensure segregation of duties for the receipt of drug rebate funds. The State agency did not address updating accounts receivable data for periods prior to FY 2002. The State agency's comments are included in their entirety as the Appendix.

We commend the State agency for efforts to update its accounts receivable data for FYs 2002 through 2007 and recognize that it is a labor-intensive task because of the large number of records. However, the drug rebate program began in 1991; thus, the data from 1991 through 2001 also need to be updated. We continue to believe that until all of the accounts receivable data is updated, the State agency cannot be assured that all interest due the State agency has been received and that all disputes related to manufacturer rebate amounts have been resolved. As a result, we continue to recommend that the State agency update the accounts receivable data in DRAMS for periods prior to the conversion and attempt to recover any unpaid rebate balances, including interest.

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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 rebate agreement with 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 New Mexico, the Human Services Department (the State agency) is responsible for the 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, best price. Based on this information, CMS calculates a unit rebate amount for each covered outpatient drug and provides the amounts to States quarterly.

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 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) 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 of 2005 (DRA) amends 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 commonly referred to as "brand name drugs" and do not have generic equivalents.

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

In New Mexico, physician-administered drugs are billed to the State Medicaid program on a physician claim form using 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 New Mexico drug rebate program, we determined that the State agency had not devoted adequate resources to, and had not established adequate controls over its drug rebate program.[3] Areas that lacked sufficient controls included (1) the accounts receivable system, (2) interest accrual and collection, (3) dispute resolution, (4) Form CMS-64.9R reconciliation, and (5) segregation of duties for the receipt of drug rebate funds. We recommended that the State agency devote more resources to the drug rebate program and develop formal policies, procedures, and controls that, at a minimum, would:

- create a sufficiently detailed subsidiary accounts receivable system with a corresponding control account for accounts receivable;
- account for the interest related to late or disputed rebate payments;
- monitor disputed rebate amounts, including appropriate use of the hearing mechanism prescribed in the rebate agreements between CMS and the manufacturers;
- accurately report drug rebate collections on Form CMS-64.9R; and
- segregate the duties for receipt of drug rebate funds.

[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]"Review of Medicaid Drug Rebate Collections State of New Mexico" (A-06-03-00012), issued April 30, 2003.

The State agency agreed with our findings and recommendations, with one exception: the segregation of duties related to drug rebate funds.

New Mexico Drug Rebate Program

The State agency performs all drug rebate program functions other than converting procedure code claims data to invoiced rebates related to drugs administered by physicians, which is performed by HWT, Inc. The State agency converted its accounts receivable system to the Drug Rebate Analysis and Management System (DRAMS) in February 2007

The State agency reported an outstanding drug rebate credit balance of $48,842,137 on the June 30, 2006, Form CMS-64.9R. For the fiscal year ended June 30, 2006, the State agency reported rebate billings of approximately $8.4 million and collections of $9.5 million.

This current review of the New Mexico 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 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, 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 New Mexico 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. We reviewed the accounts receivable data reported on Form CMS-64.9R as of June 30, 2006. Because of the State agency's conversion to DRAMS, we reviewed the accounts receivable data reported on the September 30, 2007, Form CMS-64.9R. We performed our fieldwork at the State agency in Santa Fe, New Mexico, from March through December 2007.

Methodology

To accomplish our objectives, we

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

- 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, and for the quarter ended September 30, 2007;

- reviewed policies and procedures for 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 RECOMMENDATIONS

The State agency implemented the recommendations from our prior audit that related to devoting more resources to the drug rebate program and implementing a sufficiently detailed accounts receivable system. The State agency partially implemented the recommendations that related to interest, dispute resolution, and Form CMS-64.9R reconciliation. The State agency did not implement the recommendation related to segregation of duties for the receipt of drug rebate funds. The State agency established controls over collecting rebates for single source drugs administered by physicians.

IMPLEMENTATION OF PRIOR RECOMMENDATIONS

In our prior audit of the New Mexico drug rebate program, we determined that the State agency had not established adequate controls over its drug rebate program. Areas that lacked sufficient controls included (1) the accounts receivable system, (2) interest accrual and collection, (3) dispute resolution, (4) Form CMS-64.9R reconciliation, and (5) segregation of duties for the receipt of drug rebate funds.

Since our prior audit, the State agency developed an accounts receivable system that included a sufficiently detailed subsidiary accounts receivable system with a corresponding control account. The State agency also devoted more resources to the drug rebate program by increasing its full-time equivalents from one-half to three.

Interest and Dispute Resolution

In our previous audit, we determined that the State agency did not (1) accrue, track, or verify interest amounts due from manufacturers; (2) utilize adequate resources for dispute resolution; and (3) have a formal system for monitoring outstanding disputes. Also, the State agency had not established formal policies and procedures related to interest and dispute resolution. In its comments on our prior audit report, the State agency stated that it (1) would ensure that procedures were put in place to account for interest on late or disputed rebate payments, (2) had implemented changes that would identify disputes by NDC, and (3) discussed adding more resources to the drug rebate program so that dispute resolution could be performed adequately.

Pursuant to 42 CFR § 433.32(a), States are required to maintain "an accounting system and supporting fiscal records to assure that claims for Federal funds are in accord with applicable Federal requirements."

According to the rebate agreement between manufacturers and CMS, manufacturers are required to pay interest on late, disputed, or unpaid rebates. According to CMS Medicaid Drug Rebate Program Release No. 29, interest must be collected and cannot be disregarded as part of the dispute resolution process by either the manufacturer or the State. In addition, Program Release No. 65 states that it is the manufacturer's responsibility to calculate and pay interest for applicable rebate invoices and the State's responsibility to track collections and report those amounts to CMS.

Since our prior audit, the State agency has partially implemented the recommendations related to these issues by establishing formal policies and procedures for the calculation of interest and dispute resolution monitoring, including use of the hearing mechanism.[4] In addition, the conversion to DRAMS provides the State agency the sufficiently detailed accounts receivable system necessary to track interest calculations and monitor outstanding disputes. However, the State agency had not updated the accounts receivable data in the DRAMS for periods prior to the conversion. Until the accounts receivable data is updated, the State agency cannot be assured that all interest due the State agency has been received, and that all rebate amounts that have been disputed by manufacturers have been resolved.

Form CMS-64-9R Reporting

In our previous audit, the State agency did not perform a reconciliation of Form CMS-64.9R to its accounts receivable records. In its comments on our prior audit report, the State agency stated that accurate Federal reporting was desirable, and that it was reviewing the processes and sources of information to ensure that amounts reported were complete and accurate.

Since our prior audit, the State agency has partially implemented the recommendation related to Form CMS-64.9R reconciliation by establishing policies and procedures for reporting drug

[4]The sample rebate agreement on the CMS Web site states that if the State agency and manufacturer cannot resolve the dispute within 60 days of the due date, then the State agency must make the Medicaid program hearing mechanism available to the manufacturer to resolve the dispute. Available online at http://www.cms.hhs.gov/MedicaidDrugRebateProgram/downloads/rebateagreement.pdf. Accessed March 24, 2008.

rebate accounts receivable data on the Form CMS-64.9R based on accounts receivable reports in DRAMS. However, the State agency reconciled only the amounts reported as invoiced and collected for the quarter ended September 30, 2007. The State agency did not report any adjustments and did not reconcile the ending balance to accounts receivable records. Section 2500.6 of the "State Medicaid Manual" requires States to ". . . maintain in a formal system of records, in readily reviewable form, supporting documentation that provides detailed information on pending drug rebates at the beginning of the quarter, the amounts of drug rebates computed for each labeler, amounts written off, other adjustments made, amounts collected, and remaining pending drug rebates at the end of the quarter."

A State agency official stated that the reported outstanding balance was not reconciled to accounts receivable records due to unreliable data for periods prior to the DRAMS conversion. As a result, the State agency could not assure the accuracy of the outstanding balance reported on Form CMS-64.9R.

Segregation of Duties

In our previous audit, the State agency had not established proper segregation of duties related to the receipt of drug rebate funds. In its comments on our prior audit report, the State agency disagreed with our finding and contended that the procedures used for processing drug rebate checks were in compliance with departmental procedures and statutory requirements. The State agency also commented that multiple staff members were involved in receiving and depositing drug rebate funds and that the checks were made payable to the Human Services Department.

Since our prior audit, the State agency still had not developed written policies and procedures that segregated duties for depositing and recording drug rebate receipts. One staff member opened the mail, prepared the deposit, and posted the deposit to the general ledger. A State agency official attributed the lack of segregation of duties to staff shortage and turnover. As a result, there still was a potential risk of fraud, waste, or abuse of drug rebate funds.

PHYSICIAN-ADMINISTERED SINGLE SOURCE DRUGS

The State agency established controls over collecting rebates for single source drugs administered by physicians as required by the DRA. The State agency paid $752,223 in claims for physician-administered drugs during the January through June 2006 time period and billed manufacturers for rebates totaling $428,501.

RECOMMENDATIONS

We recommend that the State agency (1) update the accounts receivable data in DRAMS for periods prior to the conversion and pursue any unpaid rebate balances, including interest, and (2) follow procedures to reconcile all amounts reported on Form CMS-64.9R to its accounts receivable records. We also reiterate our recommendation that the State agency implement policies, procedures, and controls to segregate duties for the receipt of drug rebate funds.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In its comments on our draft report, the State agency said that it (1) was updating accounts receivable data for State fiscal years (FY) 2002 through 2007 and would begin efforts to collect unpaid balances for these periods beginning June 30, 2008, (2) will reconcile the June 30, 2008, CMS 64.9R to its updated accounts receivable data, and (3) had implemented procedures to ensure segregation of duties for the receipt of drug rebate funds. The State agency did not address updating accounts receivable data for periods prior to FY 2002. The State agency's comments are included in their entirety as the Appendix.

We commend the State agency for its efforts to update its accounts receivable data for FYs 2002 through 2007 and recognize that it is a labor-intensive task because of the large number of records. However, the drug rebate program began in 1991; thus, the data from 1991 through 2001 also need to be updated. We continue to believe that until all of the accounts receivable data is updated, the State agency cannot be assured that all interest due the State agency has been received and that all disputes related to manufacturer rebate amounts have been resolved. As a result, we continue to recommend that the State agency update the accounts receivable data in DRAMS for periods prior to the conversion and attempt to recover any unpaid rebate balances, including interest.

APPENDIX

New Mexico Human Services Department

Medical Assistance Division
PO Box 2348
Santa Fe, NM 87504-2348
Phone: (505) 827-3106

Bill Richardson, Governor
Pamela S. Hyde, J.D., Secretary

April 29, 2008

Mr. Gordon L. Sato, Regional Inspector General for Audit Services
Department of Health & Human Services
Office of the Inspector General, Office of Audit Services
1100 Commerce, Room 632
Dallas, Texas 75242

RE: Draft "Follow-Up Audit of the Medicaid Drug Rebate Program in New Mexico" (Report A-06-07-00071)

Dear Mr. Sato:

Thank you the opportunity to provide input on the draft "Follow-Up Audit of the Medicaid Drug Rebate Program in New Mexico" (Report A-06-07-00071). We considered your recommendations in order to improve our processes. Our comments pertaining to this draft review are enclosed with this letter.

Feel free to contact me or Paula McGee at (505)827-6234 with any questions related to this matter. As always, thank you for your efforts.

Sincerely,

Carolyn Ingram
Medical Assistance Division Director

/pjm

c: Pamela S. Hyde, JD, Cabinet Secretary
Katie Falls, Deputy Secretary
L. Elaine Olah, Director, ASD
Terri Gomez, Chief Information Officer
Julie Weinberg, Deputy Director, MAD
Robert Stevens, Bureau Chief, Benefits Services, MAD
Paula McGee, Healthcare Operations Manager, MAD
Bersabe Rodriguez, Financial Coordinator, ASD

Formal Response to the March 2008 draft "Follow-Up Audit of the Medicaid Drug Rebate Program in New Mexico" (Report A-06-07-00071)

Recommendation 1

We recommend that the State agency (1) update the accounts receivable data in DRAMS for periods prior to the conversion and pursue any unpaid rebate balances, including interest…

State's Response

NM Human Services Department (NMHSD) is in the process of updating accounts receivable data for the years prior to the conversion to DRAMS, state fiscal years 2002 through 2007. The payment data for 2002 through 2007 was reviewed in detail to source documentation to ensure accuracy and proper application prior to entry in DRAMS. The target date for completion of entry of the data in DRAMS is May 30, 2008. Collection activity on unpaid rebate balances through March 31, 2008 will begin on June 30, 2008 with collection letters being sent to each manufacturer detailing outstanding balances due by year. Follow-up collection activity will include phone calls for prior year unpaid balances.

Recommendation 2

We recommend that the State agency… (2) follow procedures to reconcile all amounts reported on the Form CMS-64.9R to its accounts receivable records.

State's Response

NMHSD will reconcile the CMS-64.9R amounts to the updated accounts receivable data in DRAMS and report the reconciled amounts on CMS-64.9R for the period ending June 30, 2008.

Recommendation 3

We also reiterate our recommendation that the State agency implement policies, procedures, and controls to segregate duties for the receipt of drug rebate funds.

State's Response

NMHSD implemented procedures to ensure segregation of duties for receipt of drug rebate funds. An Accounts Receivable staff member opens the mail and enters all checks in a Check Log daily; a second staff member prepares the deposit and posts the deposit to the general ledger. The Check Log is used to reconcile deposit entries in the general ledger on a monthly basis by a third staff member. These procedures are included in the NMHSD agency specific procedures used as a supplement to the state-wide Model Accounting Practices. The NMHSD Drug Rebate Policies and Procedures are being updated to reflect the change in procedures.