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

FEB 07 2008

Report Number: A-07-07-03096

Ms. Deborah E. Scott
Director
Missouri Department of Social Services
P.O. Box 1527
Jefferson City, Missouri 65102-1527

Dear Ms. Scott:

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 Missouri." 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-07-07-03096 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 MISSOURI

Daniel R. Levinson
Inspector General

February 2008
A-07-07-03096

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 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 Missouri, the Department of Social Services (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 Missouri drug rebate program (A-07-03-04011), we determined that the State agency had adequate controls over its drug rebate program, with the exceptions of Form CMS-64.9R and the general ledger reconciliation, dispute resolution, and interest accrual and collection.

We recommended that the State agency:

- amend the Form CMS-64.9R to reflect a total receivable balance of $32,611,144;
- reconcile the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R;
- develop policies and procedures, changing regulations if necessary, to utilize a State hearing mechanism to settle disputes; and
- estimate and accrue interest on all overdue rebate balances

The State agency agreed with our findings and recommendations related to amending the Form CMS-64.9R and reconciling the general ledger control account to the subsidiary ledgers/accounts and to the Form CMS-64.9R. Additionally, the State agency agreed to implement policies and procedures to estimate and accrue interest on all overdue rebate balances. However, the State agency did not agree with our recommendation related to developing policies and procedures to utilize a State hearing mechanism for dispute resolution.

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

SUMMARY OF FINDINGS

The State agency corrected the weaknesses from our previous audit that related to amending the Form CMS-64.9R for June 30, 2002 to reflect a total receivable balance of $32,611,144; and estimating and accruing interest payments received from manufacturers. However, the State agency did not correct the weaknesses related either to reconciling the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R; or to developing policies and procedures to offer a State hearing mechanism to settle disputes. As a result, the State agency did not prepare and submit accurate Forms CMS 64.9R; and it may not have received all drug rebate collections to which it was entitled. Additionally, the State agency established controls over and accountability for collecting rebates on single source drugs administered by physicians.

RECOMMENDATIONS

We recommend that the State agency:

- develop policies and procedures to reconcile the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R;

- develop policies and procedures to identify the State agency's dispute resolution process, including policies and procedures to offer a State hearing mechanism to manufacturers in order to settle disputes; and

- determine the actual accounts receivable balance as of June 30, 2006, and amend the Form CMS-64.9R to include all outstanding rebate balances.

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

In written comments on our draft report, the State agency generally agreed with our findings and recommendations. In an additional comment, however, the State agency cited its "good working relationships" with drug manufacturers and stated that "[t]o date, no drug manufacturer has requested to use a state hearing mechanism to settle a dispute." The State agency added that for that reason, and after obtaining similar perspectives from counterparts in three other States, it "does not see the benefit of implementing a hearing mechanism at this time." 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. Specifically, we continue to believe that offering a hearing mechanism to manufacturers could increase the State agency's rebate collections and ensure that disputes are resolved within 60 days, as required by the rebate agreement.

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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 connection with the drug rebate program. In Missouri, the Department of Social Services (the State agency) is responsible for the 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) 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) 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 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 Missouri, physician-administered drugs are billed to the State Medicaid program on a pharmacy claim Form MO-8803. The pharmacy claim Form MO-8803 contains a field for physicians to identify the NDC of the drug used. However, some physicians only identify the procedure codes that are part of the Healthcare Common Procedure Coding System. 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 Missouri drug rebate program, we determined that the State agency had adequate controls over its drug rebate program, with the exceptions of Form CMS-64.9R and the general ledger reconciliation, dispute resolution, and interest accrual and collection.[3]

We recommended that the State agency:

- amend the Form CMS-64.9R to reflect a total receivable balance of $32,611,144;
- reconcile the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R;
- develop policies and procedures, changing regulations if necessary, to utilize a State hearing mechanism to settle disputes; and
- estimate and accrue interest on all overdue rebate balances.

The State agency agreed with our findings and recommendations related to amending the Form CMS-64.9R and reconciling the general ledger control account to the subsidiary ledgers/accounts and to the Form CMS-64.9R. Additionally, the State agency agreed to implement policies and

[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 Missouri" (A-07-03-04011), issued May 6, 2003.

procedures to estimate and accrue interest on all overdue rebate balances. However, the State agency did not agree with our recommendation related to developing policies and procedures to utilize a State hearing mechanism for dispute resolution.

Missouri Drug Rebate Program

The State agency contracted with its fiscal agent, Infocrossing Healthcare Services Inc, to prepare and mail the rebate invoices to manufacturers. The fiscal agent's responsibilities included converting procedure code billing units into equivalent NDC billing units. The Drug Rebate Unit (DRU), a part of the State agency, was responsible for monitoring and working on the drug rebates accounts receivable, including posting payments to subsidiary ledgers, resolving disputes, and monitoring outstanding balances. Staff in other departments separately performed the functions of depositing funds and preparing the Form CMS-64 reports. The State agency also participates in supplemental drug rebate programs for Medicaid Drugs and Diabetic Supplies.

The State agency reported an outstanding drug rebate balance of $53,257,002 on the June 30, 2006, Form CMS-64.9R. However, $45,820,819 of this amount related to quarterly billings and was not past due as of June 30, 2006. Of the remaining $7,436,183 that was past due, $5,594,511 was more than 1 year past due. For the fiscal year ended June 30, 2006, the State agency reported rebate billings of approximately $265.7 million and collections of $329.8 million. However, after reconciling the Form CMS-64.9R to supporting documentation, we determined that the State agency understated accounts receivable by $7,764,476 for the quarter ended June 30, 2006.

This current review of the Missouri 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 Missouri 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 Form CMS-64.9R as of June 30, 2006.

We conducted fieldwork at the State agency, located in Jefferson City, Missouri, during August and September 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 previous Office of Inspector General audit report over the drug rebate program in Missouri;

- 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 during the four quarters ending June 30, 2006, and interest payments received for the quarter ended June 30, 2006;

- reviewed Form CMS-64.9R for September 30, 2002, to verify that the State agency made the recommended adjustment;

- 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 RECOMMENDATIONS

The State agency corrected the weaknesses from our previous audit that related to amending the Form CMS-64.9R for June 30, 2002 to reflect a total receivable balance of $32,611,144; and estimating and accruing interest payments received from manufacturers. However, the State agency did not correct the weaknesses related either to reconciling the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R; or to developing policies and procedures to offer a State hearing mechanism to settle disputes. As a result, the State agency did not prepare and submit accurate Forms CMS 64.9R; and it may not have received all drug rebate collections to which it was entitled. Additionally, the State agency established controls over and accountability for collecting rebates on single source drugs administered by physicians.

IMPLEMENTATION OF PRIOR RECOMMENDATIONS

In our prior audit of the Missouri drug rebate program, we determined that the State agency:

- overstated its outstanding drug rebate balance by $1,176,621 on the Form CMS-64.9R as of June 30, 2002 because it did not reconcile the general ledger control account to the subsidiary ledger/records and to the Form CMS-64.9R;

- did not have policies and procedures to utilize State hearings to resolve disputes; and

- did not have adequate procedures to accrue interest for late or disputed rebate payments.

Since our prior audit, the State agency has corrected the overstatement of the accounts receivable balance; and it has implemented policies and procedures to accrue interest for late or disputed rebate payments. However, as of the end of our fieldwork, the State agency has not developed policies and procedures to perform a reconciliation of the general ledger control account to the subsidiary ledger/accounts and to the Form CMS-64.9R, nor has it developed policies and procedures to offer State hearings to resolve disputes.

Reconciliation of General Ledger to Subsidiary Ledgers/Accounts

The State agency did not develop policies and procedures to reconcile the general ledger control account to the subsidiary ledger/accounts and to the Form CMS-64.9R. In its comments on the prior audit finding, the State agency indicated that it would develop policies and procedures to generate the “Drug Rebate Outstanding Balance Report” and “Accounts Receivable Summary Report” on the same date to facilitate reconciliation of the “general ledger” account balance report and the detailed “subsidiary” accounts receivable report. However, the State agency did not implement this planned corrective action. As a result, the State agency does not have reasonable assurance that receivables were adequately safeguarded or that drug rebate information reported to CMS was accurate.

Federal regulations at 45 CFR § 92.20(b)(3) require that financial management systems provide for "[e]ffective control and accountability . . . for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

The Missouri Department of Social Services, Division of Budget and Finance (DBF), prepared the Form CMS–64.9R based on the data it received from the Missouri (MO) HealthNet Division (MHD).[4] However, the MHD did not reconcile the rebate figures reported to CMS to a general ledger control account. In addition, the general ledger control account balance for manufacturer drug rebates receivable was not reconciled to the total of all subsidiary accounts receivable accounts for each manufacturer. Moreover, we found no evidence of reconciliation between the drug rebates received from manufacturers and the drug rebate collections reported on the Form CMS-64.9R.

Because it did not perform these routine reconciliations, the State agency does not have reasonable assurance that receivables were adequately safeguarded or that drug rebate information reported to CMS was accurate. For example, the Forms CMS-64.9R filed by DBF for the four quarters ended June 30, 2006 understated accounts receivables by $24,171,374. This error is discussed in further detail below.

State Hearing Mechanism

The State agency did not develop policies and procedures to offer a State hearing mechanism to manufacturers in order to settle disputes. In response to the prior finding, the State agency asserted that a hearing process was not required for dispute resolution because (1) the Medicaid drug rebate program rules were never finalized, (2) Omnibus Budget Reconciliation Act Section 1927 did not legislate timelines for dispute resolutions or hearings, and (3) the hearing mechanism is only imposed by the rebate agreement at the manufacturer's request. However, the rebate agreement states that in the event that the State and the manufacturer are not able to resolve a discrepancy within 60 days, CMS shall require the State to make available to the manufacturer the State's hearing mechanism available under the Medicaid program. As a result of the absence of this State hearing mechanism, the State agency may not have received all drug rebate collections to which it was entitled.

During our review of dispute resolution procedures, the State agency informed us that no written policies and procedures existed to identify or explain the dispute resolution process. State agency officials added that they contact manufacturers directly in order to resolve disputes within six months.

Because manufacturers were not required to attend Drug Rebate Program meetings, there were no incentives for them to resolve claims, and the requirements provided for no other sanctions. Therefore, we believe the State agency could increase its drug rebates collections by offering a State hearing mechanism.

[4]Effective September 1, 2007 in accordance with the passage of the Missouri Health Improvement Act of 2007, the Division of Medical Services is now referred to as the MO HealthNet Division.

Preparation of Form CMS-64.9R

The State agency did not have adequate procedures to prepare and submit accurate rebate information to CMS. Specifically, the State agency did not prepare and submit accurate Forms CMS-64.9R beginning with the quarter ended March 31, 2004. The DBF prepared Form CMS-64.9R with information that was provided by the DRU and Financial Services Unit. The State agency did not have documentation that it verified the accuracy of amounts reported on the Form CMS-64.9R or that it reconciled reported amounts to supporting records. In calendar year 2004, the State agency began collecting supplemental and procedure code rebates, in addition to those rebates obtained through the Federal agreements. However, the State agency did not include the outstanding amounts for these rebates on its Form CMS-64.9R, as required by Federal requirements.

Section 1927 (b)(1)(B) of the Act states that "[a]mounts received by a State under [a rebate agreement] . . . in any quarter shall be considered to be a reduction in the amount expended under the State plan in the quarter for medical assistance for purposes of section 1903(a)(1)."

Furthermore, CMS issued a letter to State Medicaid directors, dated September 18, 2002, which states, ". . . supplemental drug rebates must be 'considered to be a reduction in the amount expended under the State plan in the quarter for medical assistance' as required by section 1927(b)(1)(B) of the Act."

Additionally, Federal regulations at 45 CFR § 92.20(b)(3) require that financial management systems provide for "[e]ffective control and accountability . . . for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes."

The State agency reported amounts on the Form CMS-64.9R that were inaccurate. These inaccuracies occurred because the State agency did not establish adequate controls over the Form CMS-64.9R reporting process. The State agency reported an outstanding drug rebate balance of $53,257,002 on the Form CMS-64.9R for the quarter ended June 30, 2006. However, the State agency failed to include $7,764,476 which related to outstanding supplemental and procedure code rebates. Because it did not perform routine reconciliations or comply with Federal requirements, the State agency does not have reasonable assurance that receivables were adequately safeguarded or that drug rebate information reported to CMS was accurate.

PHYSICIAN-ADMINISTERED SINGLE SOURCE DRUGS

The State agency established controls over and accountability for collecting rebates for single source drugs administered by physicians as required by the DRA. The State agency paid $10,222,622 in claims for physician-administered drugs during the January through June 2006 time period and billed manufacturers for rebates totaling $3,836,209.

RECOMMENDATIONS

We recommend that the State agency:

- develop policies and procedures to reconcile the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R;

- develop policies and procedures to identify the State agency's dispute resolution process, including policies and procedures to offer a State hearing mechanism to manufacturers in order to settle disputes; and

- determine the actual accounts receivable balance as of June 30, 2006, and amend the Form CMS-64.9R to include all outstanding rebate balances.

STATE AGENCY'S COMMENTS

In written comments on our draft report, the State agency generally agreed with our findings and recommendations. In an additional comment, however, the State agency cited its "good working relationships" with drug manufacturers and stated that "[t]o date, no drug manufacturer has requested to use a state hearing mechanism to settle a dispute." The State agency added that for that reason, and after obtaining similar perspectives from counterparts in three other States, it "does not see the benefit of implementing a hearing mechanism at this time."

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. Specifically, we continue to believe that offering a hearing mechanism to manufacturers could increase the State agency's rebate collections and ensure that disputes are resolved within 60 days, as required by the rebate agreement.

APPENDIX

MISSOURI
DEPARTMENT OF SOCIAL SERVICES

Matt Blunt
GOVERNOR

Deborah E. Scott
DIRECTOR

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January 16, 2008

Mr. Patrick J. Cogley
Regional inspector General for Audit Services
Department of Health and Human Services
601 East 12th Street, Room 284A
Kansas City, Missouri 64106

Dear Mr. Cogley:

This is in response to your November 21, 2007, request for comments on the draft report, *Follow-Up Audit of the Medicaid Drug Rebate Program in Missouri*. For ease of reference, recommendations are repeated with the Department of Social Services' responses.

Recommendation: Develop policies and procedures to reconcile the general ledger control account to the subsidiary ledgers/records and to the Form CMS-64.9R.

Response: We agree with this recommendation. Recently, MO HealthNet Division (MHD) developed policies and procedures to reconcile the general ledger control account to the subsidiary ledgers and Form CMS-64.9R. Quarterly, as the Form CMS-64.9R is prepared, MHD will perform a reconciliation.

Recommendation: Develop policies and procedures to identify the State agency's dispute resolution process, including policies and procedures to offer a State hearing mechanism to manufacturers in order to settle disputes.

Response: We agree with this recommendation in part. In addition to using the Centers for Medicare and Medicaid Services (CMS) Drug Rebate Operations Guide, the state will create a desk manual to document the dispute resolution process.

MHD has good working relationships with the drug manufacturers and we are able to collect rebates in a reasonable amount of time. To date, no drug manufacturer has requested to use a state hearing mechanism to settle a dispute. After speaking with colleagues from three other states, MHD found only one state with a hearing mechanism in place, but they too have had no hearing requests. Therefore, MHD does not see the benefit of implementing a hearing mechanism at this time.

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Recommendation: Determine the actual accounts receivable balance as of June 30, 2006, and amend the Form CMS-64.9R to include all outstanding rebate balances.

Response: MHD concurs that the accounts receivable balance was misstated as of June 30, 2006. We will work with CMS to correct it. Future accounts receivable balances will include supplemental and procedure code rebates.

Please contact Ian McCaslin, M.D., M.P.H., Director, MO HealthNet Division, at 573-751-6922, if you have additional questions or concerns.

Sincerely,

Deborah E. Scott
Director

DES:ju