

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**INDIANA PROPERLY REPORTED
ADJUSTMENTS RELATED TO THE DRUG
REBATE PROGRAM**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Amy J. Frontz
Deputy Inspector General
for Audit Services**

August 2020
A-05-19-00028

Office of Inspector General

<https://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These audits help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

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.

Report in Brief

Date: August 2020
Report No. A-05-19-00028

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

On the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) for the quarter ended September 30, 2014, Indiana claimed increasing adjustments on Line 10A, Adjustments Decreasing Claims For Prior Quarters: Federal Audit (Line 10A). We audited Indiana's methodology in claiming the increasing adjustment.

How OIG Did This Audit

Our audit covered \$8.3 million (\$5.6 million Federal share) in increasing adjustments on the September 30, 2014, Form CMS-64. We analyzed supporting documentation related to the Medicaid Drug Rebate Schedule for the March 31 through September 30, 2013, Form CMS-64s and traced them to the appropriate schedule. In addition, we reviewed supporting documentation related to an internal finding from the September 30, 2011, Form CMS-64.

Indiana Properly Reported Adjustments Related to the Drug Rebate Program

What OIG Found

The State agency followed its CMS-approved methodology and properly reported \$8.3 million (\$5.6 million Federal share) in increasing adjustments to the drug rebate program on Line 10A of the September 30, 2014, Form CMS-64. The State agency made the adjustments to correct clerical errors made on the Form CMS-64s for the quarters ending September 30, 2011, and June 30, 2013.

What OIG Recommends

This report contains no recommendations.

INTRODUCTION

WHY WE DID THIS AUDIT

On the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) for the quarter ended September 30, 2014, the Indiana Family and Social Services Administration's Office of Medicaid Policy and Planning (State agency) claimed increasing adjustments on Line 10A, Adjustments Decreasing Claims For Prior Quarters: Federal Audit (Line 10A).¹ We audited Indiana's methodology for claiming the increasing adjustment.

OBJECTIVE

Our objective was to determine whether the State agency followed its CMS-approved methodology and properly reported increasing adjustments to the drug rebate program on Line 10A of the September 30, 2014, Form CMS-64.

BACKGROUND

Medicaid Program

The Medicaid program provides medical assistance to 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. In Indiana, the State agency administers the Medicaid program.

States use the Form CMS-64 to report actual Medicaid expenditures for each quarter. CMS uses the information on the Form CMS-64 to calculate the reimbursement due to the States for the Federal share of Medicaid expenditures. The Federal Government determines the Federal share amount that it reimburses to State Medicaid agencies based on their Federal Medical Assistance Percentages.

Medicaid Drug Rebate Program

The Medicaid drug rebate program became effective in 1991 (the Social Security Act § 1927). For a covered outpatient drug to be eligible for Federal reimbursement under the program, the drug's manufacturer must enter into a rebate agreement administered by CMS and pay quarterly rebates to the States. Manufacturer rebates are essentially shared between the States and the Federal Government to offset the cost of prescription drugs. CMS, the States, and drug manufacturers each have specific functions under the program.

¹ States report overpayments identified by Federal audits on Line 10A of the Form CMS-64. States report the same categories of services on the Form CMS-64.9p for prior periods and identify the expenditures by fiscal year.

States report drug rebate accounts receivable data to CMS on the Medicaid Drug Rebate Schedule, which is part of the Form CMS-64.

HOW WE CONDUCTED THIS AUDIT

Our audit covered \$8,282,783 (\$5,575,320 Federal share) in increasing adjustments to the drug rebate program on the September 30, 2014, Form CMS-64. We analyzed supporting documentation related to the Medicaid Drug Rebate Schedule for the March 31 through September 30, 2013, Form CMS-64s and traced them to the appropriate schedule. In addition, we reviewed supporting documentation related to an internal finding from the September 30, 2011, Form CMS-64.

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.

The Appendix contains the details of our audit scope and methodology.

RESULTS OF AUDIT

The State agency followed its CMS-approved methodology and properly reported \$8,282,783 (\$5,575,320 Federal share) in increasing adjustments to the drug rebate program on Line 10A of the September 30, 2014, Form CMS-64. The State agency made the adjustments to correct clerical errors made on the Form CMS-64s for the quarters ending September 30, 2011, and June 30, 2013. Accordingly, this report contains no recommendations.

APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed \$8,282,783 (\$5,575,320 Federal share) in increasing adjustments to the drug rebate program on the September 30, 2014, Form CMS-64.²

We limited our review of the State agency's internal controls to those applicable to claiming drug rebates because our objective did not require an understanding of all internal controls over the Indiana Medicaid program.

We conducted our audit, which included fieldwork at the State agency, from November 2019 through February 2020.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal requirements and guidance;
- interviewed CMS officials to determine whether they had investigated or acted on the increasing adjustment;
- interviewed State agency officials about the increasing adjustment;
- reviewed supporting documentation provided by the State agency for the increasing adjustment;
- determined whether the increasing adjustment was adequately supported; and
- discussed the results of our audit with State agency officials.

We provided the State agency with a draft audit report on June 4, 2020, for review. The State agency reviewed the report and informed us that it had no comments.

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

² An *Audit Status Follow Up Report* dated September 30, 2018, stated that the State agency returned \$815,279 in Federal Financial Participation on the September 30, 2014, Form CMS-64 Line 10A. In reviewing the September 30, 2014, Form CMS-64 Line 10A, the amounts listed were on line 7A1 "Drug Rebate – National Agreement" in the amount of \$8,282,783 (\$5,575,320 Federal share) as an increasing adjustment, which resulted in a refund to the State that did not include the \$815,279 amount.

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.