

Report in Brief

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



Why OIG Did This Review

For a covered outpatient drug to be eligible for Federal Medicaid reimbursement, the manufacturer must enter into a rebate agreement administered by the Centers for Medicare & Medicaid Services (CMS) and pay quarterly rebates to the States. Previous OIG reviews found that States did not always bill and collect all rebates due for drugs administered by physicians to enrollees of Medicaid managed-care organizations (MCOs).

Our objective was to determine whether Arizona complied with Federal Medicaid requirements for billing manufacturers for rebates for drugs dispensed to MCO enrollees.

How OIG Did This Review

We reviewed drug utilization data for both pharmacy and physician-administered drugs for Arizona's MCOs from April 2010 through March 2013. We identified MCO drug utilization data for drugs billed for rebates and tested the rebates billed by selecting 27 National Drug Codes (NDCs) associated with 24 manufacturers and reviewing supporting documentation. We also identified these data for physician-administered drugs that were not billed for rebates and determined which drugs were eligible or may have been eligible for rebates. (Pharmacy drugs were properly billed for rebates.) For these physician-administered drugs, we estimated the minimum amount of rebates that Arizona could have collected if it had billed these drugs for rebates.

Arizona Did Not Bill Manufacturers for Some Rebates for Drugs Dispensed to Enrollees of Medicaid Managed-Care Organizations

What OIG Found

When Arizona billed manufacturers for rebates for pharmacy and physician-administered drugs, it did so correctly. However, Arizona did not bill for and collect from manufacturers estimated rebates of \$36.7 million (\$25.6 million Federal share) for physician-administered drugs. For drugs that were eligible for rebates, Arizona did not bill for estimated rebates of \$18.3 million (Federal share) for single-source and top-20 multiple-source physician-administered drugs. For drugs that may have been eligible for rebates, Arizona did not bill for estimated rebates of \$7.3 million (Federal share) for other physician-administered drugs. Arizona did not always bill for and collect from manufacturers rebates because it did not have a system edit to ensure that NDCs or valid NDCs were submitted for physician-administered drugs before October 1, 2012. Even after Arizona implemented the edit on October 1, 2012, this edit did not ensure that NDCs or valid NDCs were captured for all physician-administered drugs.

What OIG Recommends and Arizona Comments

We recommend that Arizona (1) bill for and collect from manufacturers rebates for single-source and top-20 multiple-source physician-administered drugs and refund the estimated \$18.3 million (Federal share); (2) work with CMS to determine whether the other physician-administered drugs were eligible for rebates and, if so, upon receipt of the rebates, refund up to an estimated \$7.3 million (Federal share) of rebates collected; (3) strengthen the NDC edit to ensure that NDCs are captured and valid for all drug utilization data; and (4) ensure that all physician-administered drugs eligible for rebates are processed for rebates.

Arizona provided information on actions that it planned to take to address our first recommendation and concurred with our third and fourth recommendations. Regarding our second recommendation, the State agency disagreed with our finding that it was required to obtain rebates for other physician-administered drugs. We maintain that our second recommendation is valid. The estimated amount of rebates related to our finding was for drugs that may have been eligible for rebates, not for drugs that were eligible for rebates. Accordingly, we set aside for CMS resolution the estimated \$7.3 million (Federal share) for these drugs.