



John Keel, CPA  
State Auditor

A Follow-Up Audit Report on  
**The Health and Human Services Commission's  
Prescription Drug Rebate Program**

September 19, 2005

Members of the Legislative Audit Committee:

The Health and Human Services Commission (Commission) has made progress correcting certain findings from an April 2003 audit report, *An Audit Report on the Prescription Drug Rebate Program at the Health and Human Services Commission* (SAO Report No. 03-029). However, it still needs to correct other findings.

**The Commission is in the Process of  
Outsourcing Pharmacy Benefits  
Management Services**

On July 1, 2005, the Commission announced the tentative award of a contract with a vendor to perform pharmacy benefit management services. The contractor would perform claims processing and rebate administration functions. The contract is currently under negotiation and, if finalized, will take effect on January 1, 2006.

Through its Prescription Drug Rebate Program (Program), the Commission collects rebates on covered outpatient drugs from drug labelers that participate in Medicaid, the Children's Health Insurance Program (CHIP), the Kidney Health Program, and the Children With Special Healthcare Needs Program.

The Commission is in the process of outsourcing pharmacy benefits management services, which include the billing and collection of rebates from drug labelers (see text box for additional details). If that function is outsourced, the Commission will still need to ensure that it fully corrects all rebate-related findings.

**Summary of Findings the Commission Has Corrected**

To correct prior findings, the Commission has:

- Established additional controls in its Pharmacy Rebate Information Management System database (PRIMS), including limiting user access by job function, creating standard reports, and developing audit trails for tracking rebate payments and adjustments.
- Begun billing drug labelers for interest owed (in addition to billing them for principal amounts owed).
- Begun depositing rebate payments in a more timely manner (on average, the Commission now deposits these payments 2.8 days after receipt).
- Segregated staff duties for rebate payment postings, reconciliations, and dispute resolutions.
- Corrected its procedures for processing rebate credit transactions.

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- Promoted consistency in making rebate adjustments by revising its *Rebate Operations Manual*. Our walkthroughs with rebate specialists indicated there are only minor differences in the ways they research and resolve billing disputes with drug labelers.
- Created standard PRIMS reports to improve data integrity; assist in the rebate dispute resolution process; and, to a limited extent, report on key program metrics.

#### Summary of Findings the Commission Has Not Fully Corrected

Many of the findings from the 2003 audit have not been fully corrected. For example:

- The Commission is still unable to accurately report or track outstanding rebate balances and interest that drug labelers owe to the State. The Commission has hired temporary employees to post and reconcile rebate payments received prior to 1995 in PRIMS. Many of the 43 recommendations from the 2003 audit cannot be fully corrected until this project is complete.
- The Commission has not significantly improved its tracking and reporting on the Program's performance. Although it produces a *Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program* required by the U.S. Centers for Medicare and Medicaid Services (CMS), it has not produced other reports required by riders in the General Appropriations Act. The quarterly report provided to CMS covers only the Medicaid and CHIP programs and does not include the average age of receivables, quantify and stratify adjustments to invoices, or clearly define outputs and outcomes for collection and dispute resolution activity. Riders 33 and 47 (General Appropriations Act, 78th Legislature) required the Commission to prepare reports on prescription drug cost efficiency and the performance of the Program.
- Commission management states that it reviews rebate adjustment transactions to ensure that they are processed in accordance with federal guidelines; however, procedures have not been developed to establish when and how such reviews occur.
- The Commission established an oversight committee to assess the rebate collection and dispute resolution processes, and its Business Improvement and Process Reengineering division reviewed the implementation status of recommendations from the 2003 audit. The review noted several action items for achieving improvement strategies; however, most action items have not been completed.
- The Commission revised staff job descriptions and evaluation forms to be more quantitative and now requires each rebate specialist to submit a monthly performance standards report. However, we could not determine how the reports were used and whether the numbers they contain are checked against records of PRIMS activity. In addition, not all program staff have received performance evaluations.

The attachment to this letter contains detailed information regarding the correction status of each finding from the 2003 audit, as well as management's responses. The Commission agrees with our findings and recommendations, and we appreciate its cooperation during this audit. If you have any questions, please contact John Young, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

Attachment

cc: Mr. Albert Hawkins, Executive Commissioner, Health and Human Services Commission

**Summary of Objective, Scope, and Methodology**

Our objective was to determine whether the Health and Human Services Commission has made progress in correcting findings in *An Audit Report on the Prescription Drug Rebate Program at the Health and Human Services Commission* (SAO Report 03-029, April 2003).

The audit scope included improvements made in the Prescription Drug Rebate Program since the release of the 2003 audit report.

The audit methodology consisted of conducting interviews, analyzing data, and obtaining documentation from the Commission. This audit was conducted in accordance with generally accepted government auditing standards.



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# Attachment

## Summary of Follow-Up Results

### Definitions of Correction Status

- Fully Corrected: Successful development and use of a process, system, or policy to correct a prior finding
- Substantially Corrected: Successful development but inconsistent use of a process, system, or policy to correct a prior finding
- Incomplete/Ongoing: Ongoing development of a process, system, or policy to correct a prior finding
- Not Corrected: Lack of a formal process, system, or policy to correct a prior finding

Auditors followed up on 43 recommendations associated with 12 findings from *An Audit Report on the Health and Human Services Commission's Prescription Drug Rebate Program* (SAO Report No. 03-029, April 2003).

Table 1 documents the correction status of the 12 findings. As Table 1 shows, the Health and Human Services Commission (Commission) has substantially corrected four findings, and its correction of eight findings remains incomplete or ongoing. (See text box for definitions of correction status.)

Table 1

Status of the Commission's Correction of Prior State Auditor's Office Findings		
Finding	Correction Status	Auditor Comments
The Commission lacks accurate information on outstanding rebate balances.	Incomplete/Ongoing	<p>The Commission has made significant improvements to the accuracy of information on outstanding rebate balances but it is still not able to accurately report or track all outstanding balances and interest owed to the State.</p> <p>The Commission has hired temporary employees to post and reconcile payments received prior to 1995 in its Pharmacy Rebate Information Management System (PRIMS). Management has stated that this project may not be complete by the end of calendar year 2005 but, if it finalizes its contract for the administration of pharmacy benefits management services, the contractor will become responsible for posting pre-1995 payments. Many of the 43 recommendations from the 2003 audit cannot be considered to be fully implemented until this project is complete.</p> <p>The Commission has developed additional standard reports in PRIMS to address data integrity problems and facilitate reporting. The Commission reports the effectiveness of Medicaid rebate collection activity on a quarterly basis to the U.S. Centers for Medicare and Medicaid Services (CMS). Each of these reports contains a disclaimer that indicates the reports do not contain all payment data for the time period prior to 1995.</p>
The Commission does not reconcile the payments drug labelers make with outstanding rebate amounts in PRIMS.	Substantially Corrected	<p>The accuracy of the Commission's rebate collection rate and outstanding rebate balances continues to be affected by the fact that not all payment data from the time period prior to 1995 is in PRIMS.</p> <p>To assist in the identification of errors in payment transactions, the Commission's rebate accountants now reconcile each others' work. In addition, PRIMS has been modified to provide additional detail on outstanding balances. The Commission bills drug labelers both on a quarterly basis and annually; the annual billing includes interest that drug labelers owe the State.</p>

**Status of the Commission's Correction of  
Prior State Auditor's Office Findings**

Finding	Correction Status	Auditor Comments
A lack of consistent procedures to adjust drug pricing and utilization data has led to inappropriate adjustments of rebate amounts that drug labelers owe.	Incomplete/Ongoing	<p>To promote consistency in making rebate adjustments, the Commission has revised its <i>Rebate Operations Manual</i> to address many of the findings from the 2003 audit report.</p> <p>Auditors' walkthroughs with rebate specialists identified only minor differences in the ways they research and resolve billing disputes with drug labelers. Almost all mission-critical data needed to resolve disputes is now maintained in PRIMS. However, the fact that the Commission's payment posting project to enter data from the time period prior to 1995 is incomplete has hindered its ability to reconcile historical data prior to processing an adjustment.</p>
The inappropriate use of credit and payment transactions in PRIMS has compromised the integrity of rebate data.	Substantially Corrected	<p>The Commission revised its procedures for making credit adjustments, and it removed the transactions that had been incorrectly recorded to a separate table in PRIMS. While there are still payment transactions in the PRIMS credit voucher table, most of these will be corrected through the Commission's payment posting project.</p>
Inadequate supervision of rebate adjustments and credits increases the risk of inappropriate and unauthorized adjustments.	Incomplete/Ongoing	<p>The Commission's <i>Operations/Training Manual</i> lists the standard process and review criteria for making rebate adjustments; however, the Commission has not documented procedures for supervisory review.</p>
The Commission has not collected or accounted for all outstanding interest on rebates owed to the State.	Incomplete/Ongoing	<p>The Commission's Pharmacy Rebates and Contracts (PRC) unit now prepares and sends invoices for outstanding interest to drug labelers on an annual basis. However, because data for the time period before 1995 is currently being entered into PRIMS, the amount of all interest owed to the State is not known. The Commission has made changes to the interest calculation program and it asserts that it is now calculating interest correctly. The State Auditor's Office did not test the calculations.</p>
Rebate collection and dispute resolution processes are not efficient.	Incomplete/Ongoing	<p>Although PRC staff now work primarily in PRIMS, some of these staff still maintain separate notebooks. Rebate accountants also maintain the "Cash Track" spreadsheet outside of PRIMS. However, auditors observed many improvements in collection and dispute resolution processes that have been facilitated by enhancements that the Commission made to PRIMS.</p> <p>The Commission also established an oversight committee that discussed potential areas of improvement within PRC. One of the areas this committee improved was the establishment of standard reports used in the dispute resolution process. When the Commission's rebate specialists research disputes for which a drug labeler has calculated a drug utilization estimate, rebate specialists now retrieve actual utilization data and submit it to the drug labeler. Drug labelers are then required to pay rebates based upon the actual utilization information provided instead of utilization estimates.</p> <p>PRC also has created aging reports that detail the length of time an unpaid balance has been outstanding. However, the information the Commission submits to CMS regarding Medicaid rebate collection issues is ranked based upon dollar amount (and not age). The Commission has not created performance measures to monitor the efficiency and effectiveness of billing, collection, and dispute resolution processes.</p>

**Status of the Commission's Correction of  
Prior State Auditor's Office Findings**

Finding	Correction Status	Auditor Comments
The Commission does not track rebate staff's performance.	Incomplete/Ongoing	<p>PRC created performance evaluation criteria for staff that include some quantifiable measurements. However, employee files did not always contain evidence of performance evaluations having been performed.</p> <p>In addition, although each PRC staff member submits a weekly workload activity log, the Commission could not provide evidence to show that this data was evaluated to determine whether staffing levels were appropriate. The Commission also does not adequately document staffing levels and time frames for its payment posting project.</p>
Inadequate segregation of duties among rebate staff working in PRIMS could subject rebate revenue to loss and misuse.	Substantially Corrected	<p>The Commission's rebate accountants reconcile each others' work. Rebate specialists and associates are no longer making adjustments relating to pharmacy claims errors because much of this responsibility has been assigned to the Commission's Vendor Drug Help Desk.</p> <p>However, adjustments relating to J-Codes (injectable drugs administered in a physician's office) are currently being processed by rebate specialists without consistently documented supervisory review. These adjustments correct billing errors that occur primarily because PRIMS lacks sufficient edit checks for dosage data.</p> <p>Rebate checks are received and processed appropriately by the Commission's accounting unit. The Commission also has improved segregation of duties by limiting access in PRIMS to the access required for each individual's job function.</p>
The Commission's informal and ineffective coding of rebate data in PRIMS limits its ability to ensure the accuracy of rebate payments and adjustments.	Incomplete/Ongoing	The Commission has enhanced PRIMS to improve data accuracy and accountability (through features such as audit trails). However, PRIMS still lacks some necessary input controls, such as a look-up function to determine the definitions of adjustment codes.
Delays in depositing rebate checks result in lost interest.	Substantially Corrected	<p>The 2003 audit specified that rebate checks were not being deposited within 6 days after receipt. Currently:</p> <ul style="list-style-type: none"> <li>▪ Deposits are made within an average of 2.8 days of receipt.</li> <li>▪ Deposits are made late 5 percent of the time.</li> </ul>
The Commission does not adequately track or report the Prescription Drug Rebate Program's (Program) performance.	Incomplete/Ongoing	<p>The Commission has not significantly improved its tracking and reporting on the Program's performance. It continues to produce quarterly reports for Medicaid rebates as required by CMS. However, these reports do not include the average age of receivables, quantify and stratify adjustments to invoices, or clearly define outputs and outcomes for collection and dispute resolution activity (all of which were recommended in the 2003 audit).</p> <p>The Commission also has not produced reports required by Riders 33 and 47 of the General Appropriations Act (78th Legislature). (The Rider 47 report was produced once, rather than quarterly as required, and it was never made public.) Riders 33 and 47 required the Commission to prepare reports on prescription drug cost efficiency and the performance of the Program.</p>

## Management's Responses

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### TEXAS HEALTH AND HUMAN SERVICES COMMISSION

ALBERT HAWKINS  
EXECUTIVE COMMISSIONER

September 13, 2005

John Keel, CPA  
The State Auditor of Texas  
1501 North Congress Avenue  
Austin, Texas 78701

Dear Mr. Keel:

The Texas Health and Human Services Commission (HHSC) appreciates this opportunity to comment on the State Auditor's Office (SAO) draft "Follow-Up Audit Report on the Health and Human Services Commission's Prescription Drug Rebate Program." As described below, HHSC has made progress implementing the recommendations SAO initially communicated in an April 2003 "Audit Report on the Health and Human Services Commission's Prescription Drug Rebate Program," and is continuing its efforts to fully address all of the issues included in the April 2003 report.

HHSC has initiated significant activity in all of the areas addressed in the SAO report. Although not all of the SAO recommendations have been fully implemented, the remaining recommendations will be addressed through HHSC's plans to outsource drug rebate administration to a contractor with a strong track record of rebate administration in other states.

HHSC released a Request for Proposals (RFP) in June 2004 to outsource the operations of the Vendor Drug Program, including rebate administration. HHSC made a tentative contract award in July 2005 for rebate and claims administration and is proceeding with contract negotiations.

To address SAO's recommendations related to accurately reporting outstanding rebate balances, HHSC initiated the Payment Posting Project (PPP) in June 2004 to enter all paper-based rebate payment information into the Pharmacy Rebate Information Management System (PRIMS). The PPP is approximately 85 percent complete, and HHSC anticipates it will be fully complete by December 31, 2005. If, however, HHSC does not complete the PPP by December 31, 2005, the vendor will complete the posting of any remaining payments in its automated rebate system. The 2005 Fourth Quarter invoice, which will be prepared in February 2006, should be based on complete information from all previous rebate payments.

HHSC has taken steps to improve its tracking and reporting of the program's performance. Rider 47 of the General Appropriations Act from the 78<sup>th</sup> Legislature requires quarterly reports

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on prescription drug rebates. HHSC staff completed one report as of the end of fiscal year 2004, and will complete another report for fiscal year 2005. The rebate administration contractor will generate reports quarterly, as required. HHSC addressed the SAO's Rider 33 comments on drug pricing information in its July 22, 2005, management response to the "Follow-Up Audit Report on the HHSC's Administration of the Children's Health Insurance Program."

Most of the outstanding action items for achieving improvement strategies that resulted from the Business Improvement and Process Reengineering division review of implementation status involved IT improvements to PRIMS. Because the contractor plans to replace PRIMS with another automated rebate system, PRIMS improvements will no longer be needed.

HHSC Medicaid/CHIP Division management continues to review rebate adjustment transactions to ensure compliance with federal guidelines. The current procedures include periodic review of transaction samples determined by using the SAO's Statistical Toolbox. HHSC is documenting these review procedures, which it will use to review adjustments made by the contractor as part of its contract oversight process.

Prior to the rebate administration function transfer to the contractor, HHSC Medicaid/CHIP Division management will conduct performance evaluations of all rebate staff, including reviews of their performance standards and PRIMS activity. HHSC will assess the contractor's performance in meeting contract requirements through its contract monitoring process.

Sincerely,



Albert Hawkins