



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*  
*Medicaid Pharmacy Services*  
*Medical Services Administration*  
*Department of Community Health*

Report Number:  
391-0116-12

Released:  
January 2013

*The federal government requires states to provide a basic set of medical services to people eligible for Medicaid. Providing pharmaceutical services to Medicaid recipients is one of the optional medical services that Michigan has elected to provide. The Department of Community Health's (DCH's) pharmaceutical drug claims totaled \$1.7 billion (\$0.6 billion General Fund/general purpose) during the period October 1, 2009 through June 30, 2012.*

***Audit Objective:***

To assess the effectiveness of DCH's efforts to identify and recover payments for pharmaceutical drugs covered by Medicare.

***Audit Conclusion:***

We concluded that DCH's efforts to identify and recover payments for pharmaceutical drugs covered by Medicare were moderately effective. We noted one reportable condition (Finding 1).

***Reportable Condition:***

DCH did not identify and recover Medicaid pharmaceutical drug payments made on behalf of beneficiaries who were Medicare eligible. We estimate that DCH could recover up to \$15.3 million (\$5.4 million General Fund/general purpose) in pharmaceutical claims that were originally paid by Medicaid but are the financial responsibility of Medicare (Finding 1).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

***Audit Objective:***

To assess the effectiveness of DCH's efforts to prevent Medicaid payments for pharmaceutical drugs prescribed by sanctioned or deceased service providers.

***Audit Conclusion:***

We concluded that DCH's efforts to prevent Medicaid payments for pharmaceutical drugs prescribed by sanctioned or deceased service providers were moderately effective. We noted two reportable conditions (Findings 2 and 3).

***Reportable Conditions:***

DCH did not always ensure that it notified the pharmacy benefits manager (PBM) when a provider was sanctioned (suspended, terminated, or excluded) and did not ensure that the PBM implemented sufficient controls to prevent payments to pharmacies for pharmaceutical drugs prescribed by sanctioned providers. In addition, DCH did not seek repayment from the pharmacy providers or the PBM

for \$712,000 (\$249,000 General Fund/general purpose) of payments made for pharmaceutical drugs prescribed by sanctioned Medicaid service providers (Finding 2).

DCH did not always ensure that it notified the PBM of deceased service providers. As a result, 324 pharmacies were reimbursed \$89,000 (\$31,000 General Fund/general purpose) for prescriptions written after the date of death of 82 deceased service providers (Finding 3).

~ ~ ~ ~ ~

**Audit Objective:**

To assess the effectiveness of DCH's efforts to monitor the accuracy of drug manufacturer rebates calculated by its contracted PBM.

**Audit Conclusion:**

We concluded that DCH's efforts to monitor the accuracy of drug manufacturer rebates calculated by its contracted PBM were moderately effective. We noted one reportable condition (Finding 4).

**Reportable Condition:**

DCH needs to improve its monitoring of the PBM's calculation, invoicing, and tracking of drug manufacturer rebates (Finding 4).

~ ~ ~ ~ ~

**Agency Response:**

Our audit report contains 4 findings and 5 corresponding recommendations. DCH's preliminary response indicates that it agrees with the recommendations.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General