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

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

Why OIG Did This Audit

For a covered outpatient drug to be eligible for Federal reimbursement under the Medicaid program's drug rebate requirements, manufacturers must pay rebates to the States for the drugs. Previous OIG audits 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 Michigan complied with Federal Medicaid requirements for billing manufacturers for rebates for drugs dispensed to MCO enrollees.

How OIG Did This Audit

We reviewed drug utilization data for both pharmacy and physician-administered drugs for Michigan's MCOs from January through December 2016.

We identified MCO drug utilization data for drugs that were not billed for rebates and used drug files from the Centers for Medicare & Medicaid Services (CMS) to determine which drugs were eligible or may have been eligible for rebates. If the National Drug Code (NDC) was not listed on the drug encounter, we used a crosswalk to identify the NDC associated with each Healthcare Common Procedure Coding System (HCPCS) code listed. We calculated the rebate amount that Michigan could have collected for drugs with NDCs and the minimum rebate amount that Michigan could have collected for drugs without NDCs.

What OIG Found

Michigan did not fully comply with Federal Medicaid requirements for billing manufacturers for rebates for drugs dispensed to MCO enrollees. Michigan did not bill for and collect manufacturers' rebates that we calculated to be at least $31.5 million (Federal share). Specifically, it did not bill for and collect manufacturers' rebates that we calculated to be at least (1) $30 million (Federal share) for pharmacy drugs and for single-source and top-20 multiple-source physician-administered drugs that were eligible for rebates and (2) $1.5 million (Federal share) for physician-administered drugs that may have been eligible for rebates that we set aside for CMS resolution. Michigan did not always bill for and collect manufacturers' rebates because Michigan and its contractor did not identify all of the rebate-eligible drugs in the utilization data submitted by the MCOs.

What OIG Recommends and Michigan Comments

We recommend that Michigan (1) bill for and collect manufacturers' rebates for pharmacy drugs and for single-source and top-20 multiple-source physician-administered drugs that we calculated to be at least $30.0 million (Federal share) and refund the Federal Government and (2) work with CMS to determine whether the non-top-20 multiple-source physician-administered drugs and other physician-administered drugs without NDCs were eligible for rebates that we calculated to be at least $1.5 million (Federal share) and, if so, upon receipt of the rebates, refund the Federal share. We also make a recommendation related to pharmacy and physician-administered drugs that were not billed for rebates after our audit period and a procedural recommendation to improve the processes for determining drug rebate eligibility.

In written comments on our draft report, Michigan concurred with our first recommendation and said that it has billed manufacturers for rebates for claims related to the MCO pharmacy and physician-administered drugs identified in this report and has returned the Federal share to the Federal Government. In addition, Michigan described actions that it has taken or plans to take to address our remaining recommendations. We recognize the corrective actions Michigan has implemented or plans to implement to address our recommendations.