



Oregon Office of Medical Assistance Programs



**Independent Accountant's Report On
An Examination for Oregon's
Pharmacy Benefit Administrator's
Processing of Medicaid Prescription
Drug Claims and Rebates For The
Year Ended June 30, 2004.**

Prepared by

MOSS-ADAMS LLP

975 Oak Street, Suite 500
Eugene, Oregon 97401
Telephone (541) 686-1040
Fax (541) 696-9673



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INDEPENDENT ACCOUNTANT'S REPORT

To Oregon Secretary of State, Audits Division
Salem, Oregon

We have examined (1) the pricing of pharmacy claims submitted to the State of Oregon (the State) for payment by the Pharmacy Benefit Administrator (PBA) of prescription drug expenses and associated services provided for the State's Medicaid population in accordance with its contract and prescription drug price agreements in effect during the period of July 1, 2003 to June 30, 2004 and (2) the Medicaid rebates the pharmacy benefit administrator has claimed, collected and allocated from pharmaceutical manufacturers in accordance with its contract and prescription drug price and rebate agreements in effect during that same period. The Office of Medical Assistance Programs and First Health Services Corporation (FHSC) are responsible for the pricing of pharmacy claims and processing of pharmacy rebates. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the pricing of pharmacy claims and processing of pharmacy rebates and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the following assertion is fairly stated in all material respects:

For the period of July 1, 2003 to June 30, 2004, FHSC has priced pharmacy claims submitted to the state for payment of prescription drug expenses and associated services provided for Oregon's Medicaid population in accordance with its contract and prescription drug price agreements in effect during that period.

Our examination disclosed the following conditions that resulted in a deviation from the established criteria of the second assertion.

Manufacturers are required to pay interest on disputed, late and unpaid rebates. As part of our testing we sampled pharmacy claims processed between July 1, 2003 and June 30, 2004. The rebate payments for eleven of these claims were paid past the due date as defined by the contract between the PBA and the State. However, interest on these rebate payments was not calculated by the rebate system and went uncollected. An additional five rebate payments relating to the

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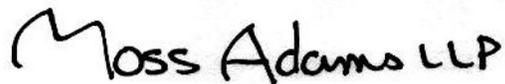
second quarter of 2004 and one rebate payment relating to the first quarter of 2004 had not been paid as of our report date. We found no evidence that interest was accruing on these six unpaid invoices.

Additionally, the FHSC system of internal controls as related to rebates in dispute or otherwise outstanding did not provide an adequate basis for testing. The First Rebate System generates invoices to be mailed to the various pharmaceutical companies. From that point forward, the mailing and subsequent follow up on those invoices is a manual process that is handled primarily by one individual in the Oregon FHSC office. Outstanding rebate claims are tracked and managed, however, there is no formal set of processes governing aging and follow up that would allow testing of the relevant controls. We suggest more formal controls be implemented such as review of quarterly aging reports and approval for any rebate claims that are written off.

It is our opinion that, except for the deviations from the criteria as described above, the assertion listed below is fairly stated in all material respects:

For the period of July 1, 2003 to June 30, 2004, FHSC has claimed, collected and allocated the Medicaid rebates due from pharmaceutical manufacturers in accordance with its contract and prescription drug price and rebate agreements in effect during the period.

This report is intended solely for the information and use of the Oregon Secretary of State, Audits Division; the Oregon State Legislature; the Oregon Department of Human Services; the Office of Medical Assistance Programs; and First Health Services Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Eugene, Oregon
February 2, 2005