

# GAO Highlights

Highlights of [GAO-14-68](#), a report to congressional requesters

## Why GAO Did This Study

States reimburse pharmacies for covered outpatient prescription drugs dispensed to Medicaid beneficiaries. For certain multiple-source outpatient prescription drugs, federal matching funds that states receive to reimburse pharmacies are limited by FULs. In 2010, PPACA modified the FUL formula to better reflect pharmacy acquisition costs and thus more effectively control Medicaid expenditures. However, CMS has not yet implemented the PPACA formula and continues to use FULs that were published in September 2009. CMS currently publishes draft PPACA-based FULs. CMS also created the NADACs for states to consider when setting reimbursement rates.

You asked GAO to look at the NADAC and the PPACA-based FULs. This report (1) describes how CMS develops the NADACs and (2) examines how PPACA-based FULs compare to the NADACs. GAO compared draft FULs and NADACs for first quarter 2013 in aggregate across all multiple-source outpatient prescription drugs subject to the FUL. GAO also reviewed CMS documentation and interviewed CMS officials on how the NADACs are developed and PPACA-based FULs are calculated.

## What GAO Recommends

GAO recommends that the CMS Administrator (1) expeditiously implement the PPACA-based FUL formula and (2) monitor the relationship between the PPACA-based FULs and the NADACs on an ongoing basis. HHS concurred with these recommendations.

View [GAO-14-68](#). For more information, contact John E. Dicken at (202) 512-7114 or [dickenj@gao.gov](mailto:dickenj@gao.gov).

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## MEDICAID PRESCRIPTION DRUGS

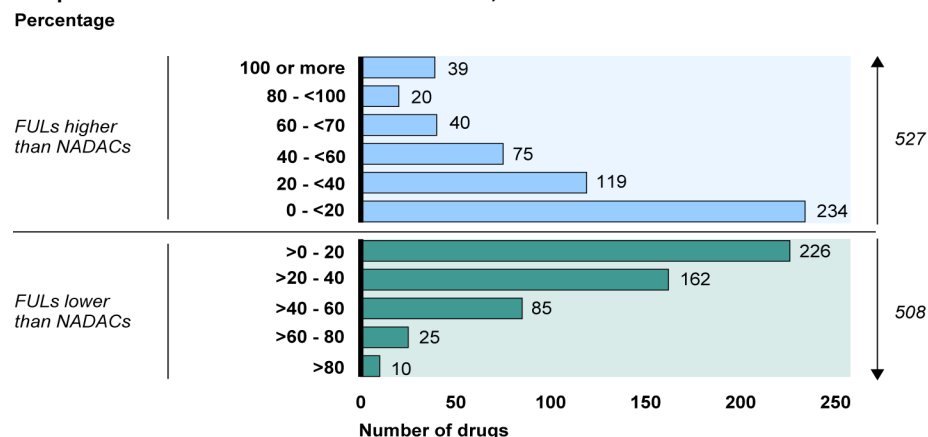
### CMS Should Implement Revised Federal Upper Limits and Monitor Their Relationship to Retail Pharmacy Acquisition Costs

## What GAO Found

To develop a national benchmark for retail pharmacy acquisition costs of Medicaid covered outpatient prescription drugs—known as the National Average Drug Acquisition Cost (NADAC)—the Centers for Medicare & Medicaid Services (CMS) within the Department of Health and Human Services (HHS) surveys each month randomly selected retail community pharmacies for invoice data on their actual drug acquisition costs. CMS then calculates an average acquisition cost for each drug based on invoice data received from about 500 to 600 pharmacies. CMS officials expressed confidence in their current process, but noted that some limitations may exist. For example, CMS officials stated the extent to which NADACs reflect rebates and discounts is limited because most occur off-invoice or are not tied to a specific drug purchase. CMS has developed and published more than 5,000 NADACs, which CMS has estimated apply to more than 90 percent of the drug claims reimbursed by Medicaid.

GAO found that the total draft federal upper limits (FUL) amount based on the new formula under the Patient Protection and Affordable Care Act (PPACA) was about 1.4 percent lower than the total NADAC amount in aggregate for 1,035 outpatient drugs subject to the FUL in first quarter 2013.

#### Comparison of PPACA-Based FULs to NADACs, First Quarter 2013



Source: GAO analysis of CMS data.

GAO found large differences between the total PPACA-based FUL amount and the total NADAC amount for generic and for branded generic versions—brand-name drugs with other versions that can be substituted for one another—of the drugs subject to the FUL in first quarter 2013. GAO found that the total PPACA-based FUL amount for the generic versions was 19 percent higher than the total NADAC amount, but for the branded generic versions was 26 percent lower. GAO's work indicates that CMS is close to having a formula under which FULs would better reflect pharmacy acquisition costs, but continues to apply FULs that were calculated more than 4 years ago. Additionally, the relationship between PPACA-based FULs and NADACs may be affected by several factors, including rebates and discounts that are not reflected on pharmacy invoices. To determine whether GAO's early results of the relationship between the PPACA-based FULs and the NADACs holds over time will require continued monitoring by CMS.