



# PERFORMANCE AUDIT REPORT

Reviewing the Medicaid Program's  
Use of Generic Drugs

## *Executive Summary* *with Conclusions and Recommendations*

A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit

State of Kansas

March 2000



# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

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LEGISLATURE OF KANSAS

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To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Reviewing the Medicaid Program's Use of Generic Drugs*.

The report also contains an appendix showing information on the drugs available from more than 1 source that were included in our sample. For each drug, the chart includes the ingredient and brand name, what the drug is frequently used for, the total number of prescriptions for all versions of the drug, the number of prescriptions for the name brand version, and how much was spent on all versions of that drug in fiscal year 1999.

This report includes several recommendations for the Department of Social and Rehabilitation Services. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

We would be happy to discuss the findings presented in this report with any legislative committees, individual legislators, or other State officials. These findings are supported by a wealth of data, not all of which could be included in this report because of space considerations. These data may allow us to answer additional questions about the audit findings or to further clarify the issues raised in the report.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

Barbara J. Hinton

Legislative Post Auditor



**Reviewing the Medicaid Program's Use of Generic Drugs**

**EXECUTIVE SUMMARY**

LEGISLATIVE DIVISION OF POST AUDIT

**Question 1: How Well Does Kansas Encourage  
The Use of Generic Drugs?**

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**Generic versions were available for nearly 60% of the prescriptions filled for Medicaid clients in fiscal year 1999.** . . . . page 6  
*However, these prescriptions made up only about one-fourth of the total spent for prescription drugs during that time period.*

**Like other states, Kansas primarily relies on federal reimbursement caps to help ensure that pharmacies dispense the lower-cost versions of drugs.** . . . . page 7  
*These caps are set when there are 3 or more equivalent versions of a particular drug. In November 1999, the Department implemented a State cap that can apply as soon as there are just 2 versions of a drug. Capping reimbursement is helpful in 2 ways. It limits what the Medicaid Program will pay for a higher-cost drug when a lower-cost version is available, and it provides a financial incentive to pharmacies to work with physicians to dispense a lower-cost version. Quarterly bulletins from the Drug Utilization Review Board also encourage use of generic versions.*

**For a sample of high-expense or high-use drugs, Kansas' Medicaid Program paid for the generic version of those drugs more than 80% of the time.** . . . . page 8  
*We reviewed 55 of the drugs that the Medicaid Program spent the most money on or that were prescribed most frequently for Medicaid clients in fiscal year 1999. Generic versions of these drugs were dispensed 82% of the time, saving the Program \$2.2 million. If generics had been dispensed for all the prescriptions in our sample, Medicaid might have saved an additional \$814,000. However, generic versions aren't always the cheapest, and there will always be medical reasons why generic drugs aren't dispensed 100% of the time.*

**The Department might be able to further increase the use of lower-cost versions of drugs, but not without changes in laws, regulations, or policies.** *We contacted 10 states reported to have good cost-saving measures in effect in their pharmacy programs. Among the ideas that Kansas could explore are requiring a client to “fail” with a generic version before getting the name brand, requiring proof of medical necessity for all name brand drugs, and changing co-payments and fees to pharmacists to encourage more use of generic drugs.*

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**Question 1 Conclusion:** *Kansas, like other states, has relied primarily on federal reimbursement caps to encourage the use of generic drugs in the Medicaid Program. The use of generic drugs saved the Medicaid Program an estimated \$2.2 million in fiscal year 1999 alone. The Department of Social and Rehabilitation Services’ new policy to extend the reimbursement caps to apply to more drugs should provide even greater incentives to use generic drugs. To achieve additional savings, the Department should consider more aggressive initiatives tried by other states, which may require changes to current State law. Nevertheless, there is a limit to how much can be saved by using generics, because about 75% of prescription drug costs are attributable to drugs that don’t have generic alternatives. Our recommendations in this area are included with the recommendations following Question 2.*

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**Question 2: What Other Measures Does the Department Take to Control Medicaid Drug Costs, and What Additional Steps Should It Explore?**

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**The Department has implemented many effective cost-control measures in the Medicaid pharmacy program.** *In addition to the pricing restrictions that encourage pharmacies to dispense lower-cost versions of drugs, the Program doesn’t pay for certain types of drugs, and it requires proof of medical necessity for expensive drugs and drugs subject to abuse. Reviews help ensure drugs are prescribed appropriately. The Department limits the initial supply of any drug and limits how often it will pay for refills. There are further limitations on specific drugs, such as Viagra. Among the ways the Department controls what the State pays for each prescription are lowering reimbursement for specific drugs, making sure other insurance pays before Medicaid does, having clients make co-payments for prescriptions, and collecting rebates from pharmaceutical manufacturers. (Those collections reached about \$25 million in*

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fiscal year 1999.) The Department also takes steps to identify and pursue fraud and abuse.

**To help control drug costs even further, the Department could expand some existing programs and consider implementing initiatives other states are trying.** For example, Kansas might expand its coverage of over-the-counter drugs, expand counseling for patients with chronic conditions, and require proof of medical necessity for more drugs. It might implement additional ideas, such as starter doses and paying pharmacists to split expensive tablets. These ideas likely would result in some cost savings to the Medicaid Program, but the Department should research them further to determine whether they would result in significant savings in Kansas. . . . page 17

**Question 2 Conclusion:** The Department is taking many steps to cut costs in the Medicaid drug program. These steps are important because the use of drugs, as well as the cost of new drugs, will only continue to increase costs to Medicaid. The Department could expand its efforts in several areas; some may require a change in law while others would require simply a change in policy. Some investigation into the cost-effectiveness of additional initiatives is merited, but at least one initiative regarding the splitting of larger tablets of certain drugs appears it would save a significant amount of money. Currently, the Department has one staff member working exclusively with the drug program, and her other duties limit the amount of time she has to investigate and implement new ideas. . . . page 21

As Department officials consider initiatives, they should be alert to changes that would decrease drug costs but increase general health care costs. Restricting or hindering access to an expensive drug might make someone sicker and require hospitalization or other intensive health care services.

**Question 2 Recommendations:** We recommended that the Department set priorities and examine the cost-effectiveness of ideas that could help control the Medicaid Program's costs for prescription drugs. It is possible the Department would need to add research capabilities to fully investigate these ideas. We also recommended that the Department and the Drug Utilization Review Board evaluate the effectiveness of the Board's outreach to Medicaid providers. . . . page 21

In its response, the Department generally agreed with our recommendation to further investigate various cost-control measures.

**APPENDIX A:** *Scope Statement* . . . page 23

**APPENDIX B:** *Drugs in Our Sample* . . . page 27

**APPENDIX C:** *Agency Response* . . . page 30

This audit was conducted by Jill Shelley and Robin Kempf. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Shelley at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).