



PERFORMANCE AUDIT REPORT

**State Prescription Drug Plan: Reviewing the
Accuracy of Payments Made Under the Program**

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

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
April 2004**

Legislative Post Audit Committee

Legislative Division of Post Audit

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April 27, 2004

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, *State Prescription Drug Plan: Reviewing the Accuracy of Payments Made Under the Program*.

The report includes several recommendations: the State should routinely check samples of claims and payment data to verify costs and payments, and to better ensure claims aren't paid for people who aren't eligible; the State should ensure staff have the tools and training they need to do these checks; the State should encourage participants to request prescriptions for 60-day supplies of maintenance drugs; and the State should work with AdvancePCS to improve the transfer of eligibility information. We would be happy to discuss these recommendations or any other items in the 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.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is fluid and cursive.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Overview

The State's prescription drug program paid \$55 million in 2003 for employees' and other participants' prescriptions. page 3
The Kansas Health Care Commission oversees the pharmacy benefits plan that's offered to State employees, employees of participating school districts and local units of government, retirees, COBRA participants, and dependents of these groups. The program is self-insured; it's funded through premiums paid by participants and their employers.

Kansas contracts with AdvancePCS to administer the pharmacy benefits program. page 5
The company computes and verifies pharmacy claims, pays the pharmacies directly, and reports claims activities to the State. In addition, AdvancePCS advises on claims issues and procedures and acts as a consultant on utilization review and cost-control measures.

The State reimburses AdvancePCS for the amounts it pays to the pharmacies, but doesn't pay for the administrative services AdvancePCS provides. Instead, AdvancePCS paid the State \$3.83 per member per month in 2003 (\$5.00 in the 2004 contract) but keeps rebates and other payments from manufacturers. Several other entities assist the State with different types of reviews of the program.

Have Payments Made to AdvancePCS for Drugs Purchased Under the State Employees' Prescription Drug Program Been Accurate and in Accordance With the Terms of the Contract?

Most of the claims payments we reviewed appeared to be accurate, although we noted a few problems. page 7
The State's contract with AdvancePCS sets high accuracy requirements for payments, and it includes penalties for not reaching those standards. The State's only audit of whether those standards were met, in 2001, found a few problems, such as claims paid for some ineligible members, inaccurate co-payments, and the like. We tested claims paid between January 1 - October 31, 2003, and focused on many of the same problems identified in the earlier audit. Most of the data elements we reviewed and processes we tested appeared to be accurate; those are listed on the next page.

Test Results Showing Payments and System Edits with No Problems All Claims 1/1/03-10/31/03		
Tests For Payment Accuracy	# of claims we tested	# of problem claims found
Allowable Charges - The State was charged only for Ingredient cost + dispensing fee + sales tax (if applicable).	1.2 million	none
Ingredient Cost - The price charged for the drug was the actual price of the drug on that day.	25 drugs 819 claims	none
Sales Tax - Prescriptions were exempt from sales tax, except prescriptions filled in certain other states.	1.2 million	none
Copayment - The State and the participant paid the appropriate share.	18,293	none
Payments to Pharmacists - Amounts paid to pharmacists matched amounts AdvancePCS billed the State.	209	1
Tests for System Edits		
Re-fill prescriptions were limited to a 60-day supply	741,795	none
Initial fill limited to a 30-day supply, or 60-day supply if participant showed prior usage.	481,931	none
Lifestyle drugs such as Viagra and Propecia resulted in no cost to the State. The participant pays 100% of the cost.	6,774	1
Pre-packaged drugs - Quantities dispensed make sense for pre-packaged drugs (i.e. the State wasn't billed for 10 units of a drug that comes in packages of 7).	3,161	none

As noted below, we did find a few problems in 3 areas, one of which (paying claims for ineligible members) was also cited as a problem in the previous audit:

Test Results Showing Payment Inaccuracies			
	# of claims we tested	# of problem claims found	\$ amount of problem claims
The State paid for prescriptions for ineligible people. Approximately \$68,000 in claims appear to have been paid in error because AdvancePCS hadn't updated its eligibility files in a timely manner. Department staff continue to review the list we sent them, and based on the rate of claims that are turning out to be OK, estimate that about 0.2% of the claims shouldn't have been paid.	1.2 million	2,446 (0.19%)	\$71,415 (0.15%)
Some drugs were dispensed without the required prior authorization. Such authorization is required because of high costs or risk of abuse. We found 53 claims for these drugs that went through with no approval, because AdvancePCS hadn't manually updated the list of specified drugs. This process is now automated.	16,300	53	\$2,355
Incorrect dispensing fees were charged on a limited number of claims. We noted errors associated with mail-order claims in early 2003, and again in early 2004. Apparently, with the change of the year AdvancePCS didn't update the price reduction for dispensing fees related to mail-order prescriptions. We also identified 3 claims where \$10 dispensing fees were erroneously charged.	1.2 million	588	\$641

Inaccuracies in some parts of the claims database, such as the “days supply” field and the “payable quantities” field, limit the State’s ability to monitor the reasonableness of claims. Using those fields, we found several instances in which the State appeared to pay for excessive quantities of drugs, but with additional information, the claims appeared to be OK.

We also noted the State could have saved as much as \$469,000, and participants collectively could have saved as much as \$567,000, if the long-term medications that participants took had been filled only every 60 days rather than every 30 days. It’s unlikely savings at the top of the range could be achieved, but even half would be significant.

The State exercises very little oversight of this \$55 million (and growing) program. *The single employee assigned to this program monitors the contract but does little routine work to check the accuracy of claims or invoices. Other oversight activities have included checking discrepancies in eligibility data, the 2001 audit of claims, and AdvancePCS’ audits of pharmacies.*

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We identified a number of ad hoc or routine checks that would strengthen the State’s oversight, some of which could be implemented with only limited changes: conducting periodic audits of claims, routinely checking the accuracy of claims data for such things as inconsistent co-payment amounts and claims being paid for ineligible people, and contacting third parties to verify the accuracy of some of the data AdvancePCS submits.

Conclusion. *When full responsibility for claims payment and processing has been contracted to a private vendor, it’s important for the State to exercise appropriate oversight of the accuracy of claims processing. A 2001 audit identified a number of problems with claims processing, yet the State didn’t do much to change its oversight or monitoring of the claims process at that time. The current audit found that claims were being processed accurately for the most part, but there are still problems in the eligibility area, and there are additional types of potential problems (such as inaccuracies at pharmacies) that we didn’t check. Better monitoring would further decrease the risk the State is paying inappropriately.*

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Recommendations. *The State should routinely check samples of claims and payment data to verify costs and payments, and to better ensure claims aren’t paid for people who aren’t eligible. It also should ensure staff have the tools and training they need to do these checks. To help reduce costs, the State should encourage participants to request prescriptions for 60-day supplies of maintenance drugs. Finally, the State should work with AdvancePCS to improve the transfer of eligibility information.*

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APPENDIX A: *Scope Statement* page 14

APPENDIX B: *Top Drugs Used in the Third Quarter of 2003, Formulary and Non-Formulary* page 15

APPENDIX C: *Agency Responses* page 16

This audit was conducted by Chris Clarke, Molly Coplen, and Jill Shelley. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Clarke 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.