



STATE OF MICHIGAN
DEPARTMENT OF CORRECTIONS
LANSING

RICK SNYDER
GOVERNOR

DANIEL H. HEYNS
DIRECTOR

June 23, 2011

Mr. Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building, 6th Floor
Lansing, MI 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and a corrective action plan to address the recommendations contained within the Office of the Auditor General's audit report of Pharmaceutical Costs, Department of Corrections.

Questions regarding the summary table or corrective action plans should be directed to Julie Hamp, Office of Risk Management, at (517) 335-6886.

Sincerely,

Signature Redacted

Daniel H. Heyns, Director

Attachment
DH/22/cm

c: Executive Office
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
House Appropriations Sub-Committee on Corrections
Senate Appropriations Sub-Committee on Judiciary and Corrections
House Judiciary Committee
Senate Judiciary Committee
C. MacKenzie J. Hamp
J. Stieve D. Straub
B. Wickman L. Zeller

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1. The Agency is actively engaged in compliance efforts with all audit recommendations (See below for time table).
2. Audit recommendations the agency agrees with and will comply:

Number	Date agency will comply by
1	September 2011
2	September 2011
3	December 2011
4	November 2011
5	November 2011
6	September 2011
7	November 2011
8	January 2012
9	January 2012
10	November 2011
11	December 2011
12	October 2011
13	November 2011
14	November 2011

3. Audit recommendations the agency disagrees with:

None

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1. Atypical Antipsychotic Medications

The auditors recommended that DOC, in conjunction with DCH, timely implement measures to contain prescribing of high-cost, atypical antipsychotic medications.

Agency Preliminary Response

DOC agrees and is implementing measures to contain prescribing of high-cost, atypical antipsychotic medications. All employees of the Corrections Mental Health Program (CMHP) became employees of DOC effective February 20, 2011, integrating with the Psychological Services Unit (PSU). Approximately one-third of the psychiatrists treating prisoners are civil servants, the remainder are provided by contract with MHM. The consolidated mental health system, including developing formulary and policy for all prescribers, is under the clinical direction of the DOC Chief Psychiatric Officer (CPO) (new June 2010) and operational direction of the CMHP Director. By July 31, 2011, all existing atypical antipsychotic prisoner prescription medications will be reviewed through a new process which includes the addition of a utilization management nurse to strengthen provider education about efficacy, cost and alternatives during the process. The Medical Services Advisory Committee (MSAC) receives recommendations for updating the mental health formulary from the Psychiatric Services Advisory Committee (PSAC), under the leadership of the DOC's CPO. PSAC and MSAC together monitor overall system prescribing patterns, consider formulary changes, determine training needs and action plans. With the above action steps, the sharp decline in prescriptions of high cost medications which began in June 2010 (after addition of the CPO and MHM), will continue until CMHP expenditures are within normal ranges as compared to similar state corrections systems.

2. Monitoring of Medication Returns and Disposals

The auditors recommended that DOC establish procedures and contract language to ensure that it can minimize pharmaceutical waste and maximize the cost savings benefit of returning unused medications to the contractor.

Agency Preliminary Response

DOC agrees and is taking steps to comply. While BHCS acknowledges that opportunities exist to improve its processes, the benefits of improving the processes must be weighed against significant costs and factors such as the need to purchase or develop technological solutions to make improvement of the processes feasible, personnel resources needed to perform and monitor compliance with prescribed tasks, and the need to run correctional facilities in a safe manner.

Utilizing information acquired through a January 2010 lean six sigma process, DTMB, on behalf of BHCS, issued a request for proposal (RFP) to acquire technological solutions. Bids have been received and are in the Joint Evaluation Committee process, expected decision by July 1, 2011. The desired technology sought in the new contract will address critical points in the process affecting efficacy and degree of control. One example of desired technology is medication card scanning which will create logs for

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returns and disposals to reduce the administrative burden on health care staff and allow automated tracking and reconciliation of medications returned and credited. This technology has not been previously available in the Corrections or long term care industries and is currently in beta test stages in most systems.

BHCS has clarified its operating procedure to prohibit prepunching of medications beyond the current medication line and to discourage prepunching of medications whenever feasible, especially high-cost medications. The Directors of Nursing, Regional Health Administrators (RHAs), and Administrator of Operations will periodically observe processes to ensure compliance.

BHCS has also clarified its operating procedure to require staff to return all unused medications contained within full or partially used blister cards to the vendor for credit, except for controlled substances. This requirement currently exists within the Pharmacorr Manual, which is available to staff at each facility.

The new contract will require better methods to reconcile returned medications to pharmacy contractor credits and will require the contractor to provide an explanation for medications it denied a billing credit.

BHCS has developed performance factors for medication management counting and accountability for all staff. BHCS will also use its third party review contractor to lead a team, including the pharmacy contractor and BHCS staff, to audit all facilities annually and to determine compliance with proper return and disposal processes. Audits will begin in the fall of 2011 and will be completed by September 2012.

3. Medication Refills

The auditors recommended that BHCS implement sufficient controls over the medication refill process.

Agency Preliminary Response

DOC agrees and has been taking steps to comply. BHCS has been working to improve the process of medication refills including a process of cycling and tracking medication refills based on month of birth. After new contract takes effect in September 2011, the medication refill process will again be evaluated to determine if the process can be further improved through new technologies that may be available through the contract.

BHCS has clarified its operating procedure to require that medical providers and nursing staff consider medications on hand prior to order or refill, and to clearly denote position(s) responsible for this process. BHCS has developed performance factors for all staff to ensure proper medication ordering processes are followed. BHCS will also work with current and future vendors to create reports to identify duplication or overlapping orders of the same class and/or same medication.

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4. NonFormulary Prescriptions

The auditors again recommended that BHCS document the regional medical officer's approval for nonformulary drugs prescribed by health care professionals.

The auditors also again recommended that BHCS document the justification for the use of nonformulary drug rather than a formulary drug.

The auditors also recommended that BHCS periodically examine the continued use of approved nonformulary drugs for appropriateness.

Agency Preliminary Response

BHCS agrees and is taking steps to comply.

In the new contract, BHCS will require the contractor to develop a monthly report showing missing regional medical officer (RMO) approvals, and nonformulary medications that were dispensed prior to RMO approval. BHCS is working with current contractor to seek method for providing this information. BHCS will work with the RMO and Chief Medical Officer to review each case and determine whether dispensing prior to approval was within policy (as in emergent pain management situation) or whether targeted education and monitoring of providers is needed by the managed care vendor. The BHCS CMO and the managed care vendor's State Medical Director are evaluating the current practice of short term dispensing prior to RMO approval. By requiring 24 hour prior approval for back up pharmacies and other processes in the new contract, BHCS may virtually eliminate all short term dispensing of non-formulary medications for urgent situations without RMO approval.

The new psychiatric services contractor (MHM) has hired a utilization management nurse, who is working with the new DOC Chief Psychiatric Officer and implementing an approval process for nonformulary mental health medications. This process applies to medications prescribed by civil servant psychiatrists and MHM. Review of all current nonformulary mental health medications will be complete by July 31, 2011. All new scripts for nonformulary began prospective review April 11, 2011.

BHCS will work with the third party review contractor to audit proper history or justification for nonformulary medications.

BHCS will continue to review its pharmaceutical practices using the Medical Services Advisory Committee (MSAC) that includes staff from the pharmacy contractor, managed care contractor, and mental health contractor. For the past year and a half, MSAC has been targeting certain high-risk or high-cost medications regarding continued use. After it achieves sufficient progress with targeted drugs, MSAC will determine a strategy for a broad based review of continued use of nonformulary medications.

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5. Duplicate Medication Orders

The auditors recommended that BHCS establish controls to prevent the pharmacy contractor from dispensing duplicate medication orders for inmates housed at Duane Waters Health Center (DWH).

Agency Preliminary Response

BHCS agrees and has requested DTMB to update DOC's data systems to inform the pharmacy contractor of both the "temporary lock (DWH)" and "lock" (sending facility) when prisoners are admitted to DWH. This will allow the pharmacy contractor to recognize facility medication orders for temporarily housed DWH prisoners as "mail order – no fill" so that medications are not delivered to the primary housing facility for a prisoner who is temporarily housed at DWH.

6. Over-the-Counter (OTC) Medications

The auditors recommended that DOC require prisoners having available funds to purchase their OTC medications from the prisoner store.

Agency Preliminary Response

DOC partially agrees with recommendation. DOC wishes to clarify that BHCS must provide medically necessary medications to prisoners including OTC regardless of available funds. DOC will continue to implement OTC cost saving improvements. MSAC has made many of listed medications nonformulary during the past year. DOC's expenses are decreasing as the managed care contractor educates its medical providers. The current managed care vendor has focused on reduction of OTC prescribed medications and scrutiny of medical necessity of OTC and indigent status, resulting in significantly less OTCs delivered by pharmacy vendor. BHCS will explore other options with facility management, the pharmacy vendor and the managed care vendor.

7. Verification of Pharmaceutical Rebates

The auditors recommended that DOC establish a process to verify that it receives all applicable rebates associated with pharmaceuticals purchased by DOC.

Agency Preliminary Response

DOC agrees with this recommendation and will comply. The new RFP for pharmaceuticals includes a requirement to participate in a revenue audit that will be conducted by an external third party. The audit will review all sources of rebate/discount/revenue that the vendor has received and ensure that DOC has received all sources of revenue generated as a result of the DOC book of business. BFM has developed and implemented a written procedure to verify that rebates received agree with the drugs purchased as documented in the claims file. This procedure was initiated in the first quarter of FY11 and will continue with the new contract along with the revenue audit requirement.

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8. Pharmaceutical Billing Verification

The auditors recommended that DOC ensure that its correctional facilities implement an effective process to verify the accuracy of pharmaceutical billings.

Agency Preliminary Response

DOC agrees with the recommendation and is taking steps to comply. Through the request for proposal (RFP) process, BHCS is seeking technology to reduce the administrative burden on health care staff to manually verify receipts to billings.

BHCS is working with current vendor to obtain scanning technology to confirm medications received at the facilities so that facility staff can efficiently verify billing records. With current paper records, it is time prohibitive for facility staff to complete this verification.

Subsequent to start of the new contract, BHCS will again update its operating procedures to clarify how staff should perform, document, and retain the verification of billings to receipts and returns using new processes and technology available through new contract. BHCS has updated performance factors for all staff to ensure compliance with medication verification processes. BHCS will also use a third party review contractor to conduct independent reviews of pharmaceutical billing verifications.

9. Actual Acquisition Cost Verification

The auditors recommended that BFM establish an effective process to verify that the contractor provides pharmaceuticals to DOC correctional facilities at the same price as the contractor's actual acquisition cost.

Agency Preliminary Response

BFM agrees with the recommendation and will comply.

The new RFP for pharmaceuticals requires the contractor, through a transition plan, to work with DOC to disclose their inventory valuation method and to establish a formalized process to address how actual acquisition cost will be computed and how cost verifications will be completed.

BFM developed and implemented a written procedure and template to verify the current contractor's actual acquisition cost. This procedure was initiated in the first quarter of FY11.

10. Prisoner Medications

The auditors recommended that DOC establish sufficient controls related to receiving, maintaining, and distributing prisoner medications.

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Agency Preliminary Response

DOC agrees in part. BHCS agrees that it is desirable to periodically count restricted medications and compare them to what should be on hand, however, current staffing levels and the lack of technology prevent this at this time.

Given the significant increase in quantities of restricted medications over the past five years, a technological solution is necessary as the number of prisoners receiving mental health outpatient treatment and psychotropic medications has more than doubled from 2,000 in 2004 – 2005 to over 5,000 in 2010. Because psychotropic medications are restricted and require individual distribution by health care staff, this has significantly increased health care staff work load. In addition, according to a November 2010 Senate Fiscal Report entitled Michigan's Prisoner Health Care: Costs in Context, "data suggest that an aging population more adversely affects Michigan than the country as a whole". The quantity of prescriptions increases with the aging of the prisoner population, directly impacting the numbers of prescriptions written, received, and administered. The combined impact of increased medications for the mentally ill and the aging prisoner population make it clear that a technological solution is required.

Through a request for proposal (RFP), DOC has required technology that provides for an effective method to periodically count and compare the counts to what should be on hand. In the interim, DOC will periodically count high-cost restricted medications and compare them to what should be on hand.

BHCS has established performance factors requiring nurses to ensure that prisoners swallowed their medications. BHCS has developed performance factors for all staff to ensure proper medication passing practices are followed. In addition, BHCS will use its third party review contractor to lead a team including pharmacy contractor staff, to conduct periodic on-site audits of facilities concerning distribution of medications.

Through the RFP, BHCS is requiring scanning technology to assist in reconciling the receipt of medications to the manifests. DOC has also updated its operating procedures to require that two persons receive and process medication deliveries.

However, it is important to note that DOC utilizes a pharmacy contractor who packages and delivers a limited supply of medications in blister cards that are designated for a specific prisoner for whom a prescription was prescribed. Consequently, theft or loss of a prisoner's medications would be detected when a refill or re-order of the prisoner's medications was required before the supply should have been exhausted, or sooner based upon a nurse's observation of the remaining supply. This process creates a significant compensating method to control and safeguard prisoner medications.

11. Facility Controls Over Unused or Expired Medications

The auditors recommended that DOC ensure that sufficient controls are established at its facilities for the return and disposal of unused or expired medications.

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Agency Preliminary Response

DOC agrees and will comply.

In conjunction with BHCS's efforts to obtain technological solutions to reduce the administrative burden on staff, BHCS will further segregate duties using BHCS staff, where possible, to prepare medications for return, and document and witness on-site disposal of medications. At sites where BHCS staffing is not as full, BHCS will work with custody supervisors to obtain assistance with the return and disposal processes.

Through the RFP, DOC is requiring the pharmacy contractor to establish a statewide reverse distributor for disposal of controlled substances. DOC will also require the contractor to establish a consistent best practice method for on-site disposal of single pill, non-controlled substances. Subsequent to the issuance of a new contract, BHCS will update its operating procedure to address the reverse distributor process for controlled substances and on-site disposal of loose pills.

BHCS will establish an operating procedure to provide guidelines for the control of medications that are transferred with prisoners to DWH, so that the medications can be used by the prisoners upon their admission into DWH.

BHCS will also use its third party review contractor to lead a team including pharmacy contractor and BHCS staff, to audit all facilities annually, to determine compliance with controls over unused or expired medications.

12. Stock Pharmaceuticals

The auditors recommended that DOC maintain proper control and accountability over State-owned inventories of stock pharmaceuticals.

Agency Preliminary Response

BHCS agrees with the recommendation and has taken steps to comply.

BHCS notified key staff of their responsibilities during closure of state pharmaceutical stock centers.

Through the request for proposal (RFP), BHCS is seeking to acquire technology to assist with the process of maintaining a perpetual inventory record for State-owned inventories of stock pharmaceuticals. BHCS is also exploring whether it should require the vendor to own and dispense the pharmacy stock.

13. Controlled Substance Medication Controls

The auditors recommended that BHCS ensure that proper internal controls are established and followed by health care staff for controlled substance medication inventories within its correctional facilities.

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Agency Preliminary Response

BHCS agrees with the recommendation and has taken steps to comply.

BHCS has updated its operating procedure to clarify the requirements for locking and gaining access to controlled substances, and performing and documenting counts at shift-change. In addition, the lock was replaced at the auxiliary health unit.

BHCS will seek technological solutions to combine individual perpetual inventory sheets into a full inventory. BHCS will require staff to maintain master indexes of inventory sheets for all boxes until the point where technological solution is acquired.

BHCS has established performance factors requiring health unit managers to monitor compliance with required procedures. BHCS will also use its third party review contractor and pharmacy contractor to conduct periodic audits of all facilities concerning internal controls over controlled substance medications.

14. Medication Box Controls

The auditors recommended that DOC ensure that facilities comply with DOC operating procedures regarding inventory controls over medication boxes.

Agency Preliminary Response

BHCS agrees with the recommendation and is taking steps to comply.

BHCS has updated its operating procedure to clarify the use of seals and logs to document access to medication boxes, storage of boxes, maintenance of perpetual inventory records, and periodic inventory counts.

BHCS will require the pharmacy contractor and the third party review contractor to conduct periodic on-site audits of facilities concerning internal controls over medication boxes.