



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
471-0325-09L

Pharmaceutical Costs

Department of Corrections

Released:
March 2011

Within the Department of Corrections (DOC), the Bureau of Health Care Services (BHCS) is responsible for coordinating medical services, including pharmaceutical operations, throughout the State-run prison system. DOC's goal is to provide the greatest amount of public protection while making the most efficient use of the State's resources.

Audit Objective:

To assess the effectiveness of DOC's efforts to manage prisoner pharmaceutical costs.

Audit Conclusion:

We concluded that DOC's efforts to manage prisoner pharmaceutical costs were not effective. We noted three material conditions (Findings 1 through 3) and six reportable conditions (Findings 4 through 9).

Material Conditions:

DOC, in conjunction with DCH, had not timely implemented measures to contain the prescribing of high-cost atypical antipsychotic medications. As a result, DOC's pharmaceutical costs for atypical antipsychotic medications far exceed the levels reported for prison populations in other states and significantly impact DOC's overall pharmaceutical costs. We estimated annualized potential savings from \$852,000 to \$8.5 million. (Finding 1)

DOC had not established sufficient procedures and contract language to ensure that it could minimize pharmaceutical waste and maximize the cost savings benefit of returning unused medications to the pharmacy contractor. As a result, BHCS was

unable to determine and manage the quantity and cost of returned and discarded medications and could not ensure that proper credit was received for all returned medications. DOC spent \$98.4 million for prisoner pharmaceuticals from October 1, 2007 through July 15, 2010. The contractor provided \$10.1 million in return credits from January 2008 through July 2010. We estimated that the contractor denied return credit for \$6.1 million. (Finding 2)

BHCS had not implemented sufficient controls over the medication refill process. As a result, facilities had excessive inventory, waste, and return of medication, which contributed to increased pharmaceutical costs. (Finding 3)

Reportable Conditions:

BHCS did not document the regional medical officer's approval for nonformulary drugs prescribed by health care professionals. Also, BHCS did not document the justification for the use of a nonformulary drug rather than a formulary drug. In addition, BHCS did not periodically examine the continued use of approved nonformulary drugs for appropriateness. (Finding 4)

BHCS had not established controls to prevent the pharmacy contractor from dispensing duplicate medication orders for prisoners admitted to the Duane L. Waters Health Care Center (Finding 5).

DOC did not require prisoners having available funds to purchase their over-the-counter (OTC) medications from the prisoner store. During the period October 2007 through July 2010, approximately 853,000 OTC medication orders were provided to prisoners. The total cost to the State for these OTC medications was \$1.8 million. (Finding 6)

DOC had not established a process to verify that it receives all applicable rebates associated with pharmaceuticals purchased by DOC (Finding 7).

DOC did not ensure that its correctional facilities had implemented an effective process to verify the accuracy of pharmaceutical billings (Finding 8).

The Bureau of Fiscal Management had not established an effective process to verify that the pharmacy contractor provided pharmaceuticals to DOC correctional facilities at the same price as the contractor's actual acquisition cost (Finding 9).

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Audit Objective:

To assess the effectiveness of DOC's efforts to control and safeguard prisoner pharmaceuticals.

Audit Conclusion:

We concluded that DOC's efforts to control and safeguard prisoner pharmaceuticals were not effective. We noted one material

condition (Finding 10) and four reportable conditions (Findings 11 through 14).

Material Condition:

DOC had not established sufficient controls related to receiving, maintaining, and distributing prisoner medications. Failure to ensure that medications are properly controlled and distributed increases pharmaceutical costs and the risk that medications could be subject to loss, theft, or abuse. (Finding 10)

Reportable Conditions:

DOC did not ensure that sufficient controls were established at its facilities for the return or disposal of unused or expired medications (Finding 11).

DOC did not maintain proper controls and accountability over State-owned inventories of stock pharmaceuticals (Finding 12).

BHCS did not ensure that proper controls were established and followed by health care staff for controlled substance medication inventories within its correctional facilities (Finding 13).

DOC did not ensure that facilities had complied with DOC operating procedures regarding inventory controls over medication boxes (Finding 14).

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Agency Response:

Our audit report includes 14 findings and 16 corresponding recommendations. DOC's preliminary response indicates that it agrees with 14 recommendations and partially agrees with 2 recommendations

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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