

EXECUTIVE DIGEST

**SELECTED MEDICAID PRESCRIPTION DRUG COST CONTAINMENT
PRACTICES**

INTRODUCTION

This report contains the results of our performance audit of Selected Medicaid Prescription Drug Cost Containment Practices, Department of Social Services (DSS), for the period January 1, 1991 through April 30, 1994.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness and efficiency.

This audit was also performed in conjunction with a joint audit project involving several other states that are members of the National State Auditors Association. The concerns that prompted the joint audit project were that many of the states had a lack of adequate accountability over their drug rebate programs, their Medicaid programs' rapidly increasing prescription drug costs, and the potential cost savings

available to their Medicaid programs through several prescription drug cost containment techniques.

BACKGROUND

The Medicaid Program (Title XIX of the federal Social Security Act) is a national health assistance program, funded by the federal government and the states, for low-income individuals and families who are aged, blind, disabled, or members of families with dependent children.

The states each operate Medicaid programs according to state rules and criteria that vary within a broad framework established by federal regulations, guidelines, and policy interpretations. Michigan's Medicaid program is called the Michigan Medical Assistance Program. It is administered by DSS's Medical Services Administration (MSA).

The federal government requires states to provide a basic set of medical services to people eligible for the Medicaid Program. The states have the option of providing other medical services in addition to the basic services. Prescription drugs are one of the optional Medicaid medical services that the State of Michigan has elected to provide.

Effective January 1, 1991, federal law required pharmaceutical manufacturers to enter into drug rebate agreements with the federal Department of Health and Human Services Health Care Financing Administration. The pharmaceutical manufacturers agreed to provide drug rebates to all state Medicaid agencies.

Initially, MSA was responsible for all aspects of the State's Drug Rebate Program. In June 1993, mailing the bills to the

manufacturers and the accounts receivable function were transferred to DSS's Financial and Internal Control Administration's (FICA's) Bureau of Administrative Services, Office of Medicaid Support Services.

During fiscal year 1992-93, the Michigan Medical Assistance Program had prescription drug expenditures of approximately \$265.2 million. The Michigan Medical Assistance Program processed approximately 12.9 million prescriptions and provided services to 855,328 prescription drug recipients. Total Medicaid expenditures were approximately \$4.1 billion.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To answer the question: Did MSA and FICA properly administer and account for the Drug Rebate Program to optimize the recovery of amounts billed to the drug manufacturers?

Conclusion: We concluded that MSA and FICA properly administered and accounted for the Drug Rebate Program and succeeded in recovering almost all of the amounts billed to the drug manufacturers. However, our audit disclosed that MSA and FICA could make improvements in how they administer and account for the Drug Rebate Program to increase the amount that the Michigan Medicaid program receives from the recovery of drug costs.

Accounts receivable balances were not properly adjusted downward by approximately \$250,000 to reflect settled manufacturer disputes and uncollectible amounts from bankrupt manufacturers. Also, regular attempts were not made to collect delinquent amounts of approximately \$6.1

million and follow-up procedures had not been established for manufacturer calculated rebates estimated at \$3.3 million. (Finding 1)

Interest estimated at \$141,650 was not assessed on delinquent accounts receivable as required by the federal Department of Health and Human Services' Health Care Financing Administration (HCFA) and a database of national drug codes had not been implemented to verify the accuracy of pharmacy claims prior to reimbursing pharmacy providers (Findings 2 and 3).

Program operations were sometimes inefficient because MSA had not established a minimum rebate as required by HCFA. Also, MSA had not provided manufacturers' rebate invoices on magnetic media or determined how to automate the dispute resolution process (Finding 4).

The interest rate provisions contained in the manufacturers' agreements with HCFA were not sufficient to encourage the manufacturers to make timely payments of outstanding rebate amounts. Also, the financial instrument HCFA had selected as the basis for determining the interest rate to be assessed made it complicated and cumbersome to calculate the interest due.

MSA had not established an administrative hearing process to resolve drug rebate disputes as required by HCFA (Finding 5).

MSA's and FICA's policies and procedures for administering the Drug Rebate Program were incomplete (Finding 6).

Noteworthy Accomplishments: The Drug Rebate Program had quarterly recovery rates that ranged from 92% to 97% of the amount billed to the drug manufacturers during the audit period. Michigan's Drug Rebate Program had the highest recovery rate in the nation during calendar year 1993, based on information we received from HCFA.

Audit Objective: To answer the question: Did MSA's mandatory generic drug substitution requirement ensure that generic drugs were used whenever possible?

Conclusion: We concluded that MSA's mandatory generic drug substitution requirement did ensure that generic drugs were used whenever possible.

Noteworthy Accomplishments: Our analysis of MSA's data disclosed that MSA's generic drug dollar substitution rate averaged 98.7% (the generic drug paid claims amount divided by the total generic and multiple-source drug paid claims amount) and its generic drug claims substitution rate averaged 99.7% (the number of generic drug paid claims divided by the total generic and multiple-source drug paid claims) for calendar year 1993. The Office of Inspector General for the federal Department of Health and Human Services cited that nationwide states' generic drug claim substitution rates ranged from 37% to 99%.

Audit Objective: To answer the question: What were the cost savings to Michigan's Medicaid program from MSA's generic drug substitution requirement?

Conclusion: Based on an analysis of MSA data, we estimated that, during calendar year 1993, MSA saved between \$11.3 million and \$15.0 million by implementing its mandatory generic drug substitution requirement policy.

Audit Objective: To answer the question: Did MSA pay a significant number of claims for ulcer drugs prescribed at acute dosage levels after the three consecutive months of acute dosage therapy automatically allowed by MSA's policy?

Conclusion: We concluded that MSA paid a significant number of claims for ulcer drugs prescribed at acute dosage levels beyond the three consecutive months allowed. A computer analysis of MSA's paid claims data for the 11 oral-solid ulcer drug forms, for the period January 1993 through March 1994, disclosed that 4,516 (18.3%) of the 24,743 recipients with an ulcer or Gastro Esophageal Reflux Disease diagnoses and 9,383 (14.6%) of the 64,292 recipients without an ulcer or Gastro Esophageal Reflex Disease diagnoses had claims that exceeded the three consecutive months allowed at an acute dosage.

Audit Objective: To answer the question: Did MSA implement a prospective drug utilization review program to limit reimbursement for ulcer drugs to the three consecutive months of acute dosage therapy automatically allowed by MSA's policy?

Conclusion: We concluded that MSA implemented a prospective drug utilization review program. This program allowed recipients three consecutive months of acute ulcer

drug usage before MSA started to monitor the therapy regimen. The program was also designed to have the capability to restrict reimbursement through the claims payment system. However, because an Attorney General's opinion concluded that certain elements of the program violated the department's appropriations act boilerplate language, MSA elected not to implement this feature. (Finding 7)

Noteworthy Accomplishments: Our audit disclosed that after the implementation of the drug review program on October 1, 1993, there was a significant reduction in the use of ulcer drugs and MSA's ulcer drug expenditures. During the last quarter of calendar year 1993, after the Drug Review Program went into effect, the use of acute dose ulcer drugs fell 25.1%, the total number of doses prescribed fell 17.2%, and MSA's ulcer drug expenditures declined 14.8% (approximately \$1.04 million). These decreases are from a relatively stable usage pattern during the prior three quarters.

Audit Objective: To answer the question: What are the potential cost savings to Michigan's Medicaid program if the reimbursement for ulcer drugs prescribed at acute dosages is limited to three consecutive months?

Conclusion: We concluded that, by limiting reimbursement for the 11 oral-solid ulcer drug forms prescribed at acute dosages to three consecutive months, MSA could potentially reduce its ulcer drug expenditures an estimated \$1.8 million per year, in addition to the reductions in expenditures MSA had already achieved. However, this amount of savings is

not completely achievable. Some recipients would have a legitimate need for an acute dosage therapy period longer than three consecutive months.

Audit Objective: To answer the question: What is the feasibility of implementing a mail-order component in Michigan's Medicaid prescription drug program?

Conclusion: We concluded that it is not feasible to implement a mail-order component in Michigan's Medicaid prescription drug program without having changes made in DSS's appropriations act boilerplate language and amending the Michigan Public Health Code which prohibit mail order pharmacies (Finding 8).

Audit Objective: To answer the question: Are there potential cost savings available to Michigan's Medicaid program from the use of mail-order pharmacies?

Conclusion: We concluded that MSA could potentially reduce its maintenance drug expenditures if it implemented a mail-order program. However, MSA would have to obtain contractual provisions with a mail-order pharmacy (MOP) that are materially better than the mail-order pharmacy contracts we reviewed to realize significant savings.

We performed a computer analysis of MSA's data for 126 maintenance drugs to determine if MSA could realize potential savings by implementing a mail-order program. These 126 drugs accounted for \$99.8 million (35.5%) of MSA's \$280.8 million total prescription drug expenditures during calendar year 1993. We compared MSA's paid claim

expenditures for these 126 drugs with two MOP scenarios based on Michigan Department of Civil Service MOP contractual provisions for State employees. One scenario resulted in a savings of \$355,254 (1.6%) and the other scenario resulted in a loss of \$614,460 (2.8%). (Finding 8)

While conducting our audit procedures for this audit objective, we identified an alternative to MOP's that could significantly reduce MSA's maintenance drug expenditures. MSA could implement an incentive program with in-State pharmacies. For example, MSA could pay increased dispensing fees for prescriptions that cover periods longer than 30 days, and encourage physicians to prescribe 90 to 100-day supplies of maintenance drugs, when appropriate. This would significantly reduce the number of dispensing fees paid. We estimated that the dispensing fees for the 126 maintenance drugs used in our MOP analysis would have been reduced by \$7.6 million if the drugs had been dispensed every 90 days. However, this amount of savings is not completely achievable because it does not include the costs of the incentives necessary to implement such a program and it is based on 100% participation. (Finding 9)

**AUDIT SCOPE
AND
METHODOLOGY**

Our audit scope was to examine the program and other records related to selected Medicaid prescription drug cost containment practices of the Department of Social Services for the period January 1, 1991 through April 30, 1994. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records

and such other auditing procedures as we considered necessary in the circumstances.

This audit was performed in conjunction with a joint audit project involving several other states that are members of the National State Auditors Association. Our audit objectives, scope, and methodology were developed in a cooperative effort with the other participating states.

Our audit approach was to analyze the available information on each of four audit areas (the Drug Rebate Program, Generic Drug Substitution, Ulcer Drug Utilization Review, and Mail-order Pharmacies). Our analysis covered researching studies and state and federal audit reports; researching and analyzing State and federal legislation and rules that pertain to the four audit areas; and interviewing DSS management and staff to obtain an understanding of the four audit areas.

To accomplish our audit objective for the Drug Rebate Program, we reviewed and tested MSA's and the Financial and Internal Control Administration's (FICA's) procedures for cash receipts, the invoicing process, accounts receivable, and the adjudication of rebates in dispute. We also assessed MSA's and FICA's compliance with federal drug rebate laws and regulations.

To accomplish our audit objectives concerning generic drug substitution, we determined MSA's generic drug substitution rate and if generic drugs were used whenever possible during the audit period. We also determined the cost

savings to Michigan's Medicaid program resulting from MSA's generic drug substitution requirement.

To accomplish our audit objectives concerning our ulcer drug utilization review, we analyzed acute dose ulcer drug usage. We also determined how MSA monitored and controlled ulcer drug usage and determined the resulting cost savings. In addition, we determined the potential cost savings that the program could obtain by restricting the use of acute dose ulcer drugs.

To accomplish our audit objectives concerning mail-order pharmacies, we reviewed and analyzed MSA's costs for selected maintenance drugs. We also compared those costs with existing mail-order pharmacy program costs to determine if implementing a mail-order pharmacy element in Michigan's Medicaid program would be cost effective.

**AGENCY
RESPONSES**

Our report contains 9 findings and 16 corresponding recommendations. The department agreed with our findings and recommendations.