

Office of the Auditor General
Performance Audit Report

Prisoner Pharmaceuticals
Department of Corrections

May 2019

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Performance Audit

Prisoner Pharmaceuticals

Department of Corrections (DOC)

Report Number:
471-0325-17

Released:
May 2019

DOC's Bureau of Health Care Services is responsible for coordinating healthcare services, including pharmaceutical operations, throughout the State-run prison system. For fiscal year 2017, DOC provided pharmaceuticals to a monthly average of 40,616 prisoners, incurring total pharmaceutical expenditures of \$43.4 million, at an average cost of \$1,069 per prisoner.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of DOC's internal control over prisoner pharmaceuticals.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
We noted various issues with the oversight of controlled substance medications, including not performing, documenting, and monitoring shift-change counts; not documenting medication disposition and supervisory signatures; and not limiting medications to a 35-day supply (<u>Finding #1</u>).		X	Agrees
Regarding medication box inventory, we identified medications that were missing, not properly accounted for, not properly safeguarded, and not properly returned for credit (<u>Finding #2</u>).		X	Agrees
DOC maintains numerous restricted medications with a unit cost exceeding \$100 and others considered high-risk for abuse. DOC could better control these medications to help decrease pharmaceutical costs and the risk of loss, theft, or abuse (<u>Finding #3</u>).		X	Agrees

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of DOC's efforts to manage prisoner pharmaceutical costs.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
<p>DOC should improve its pharmaceutical billing verification processes:</p> <ul style="list-style-type: none"> At least 50% of the facilities that we visited did not maintain documentation that they manually verified the amount of pharmaceuticals received or returned for credit, as identified on the billing detail. DOC spent approximately \$115,000 per year to perform manual billing detail reconciliations. DOC did not ensure the accuracy of the \$1.8 million of rebates that it received or the \$40.9 million of pharmaceuticals dispensed by its contractor during fiscal year 2017 (<u>Finding #4</u>). 		X	Agrees
<p>DOC could improve its nonformulary drug approval process. We noted a 9% error rate. DOC spent nearly \$12 million on nonformulary drugs, 17% of total prescription expenditures, from June 2016 through December 2017 (<u>Finding #5</u>).</p>		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

May 3, 2019

Ms. Heidi E. Washington, Director
Department of Corrections
Grandview Plaza Building
Lansing, Michigan

Dear Ms. Washington:

This is our performance audit report on Prisoner Pharmaceuticals, Department of Corrections.

We organize our findings and observations by audit objective. Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

INTERNAL CONTROL OVER PRISONER PHARMACEUTICALS

BACKGROUND

Section 18.1485 of the *Michigan Compiled Laws* requires each department to establish and maintain an internal accounting and administrative control system including a plan that provides separation of duties; a plan that limits access to its resources; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; and a system of practices to be followed in the performance of duties and functions. This section also requires each department to document the system, communicate the system requirements to employees, and assure that the system is functioning as prescribed.

The Department of Corrections (DOC) maintains medications as follows:

- Restricted: Medication that has been prescribed to a specific prisoner and identified by the Bureau of Health Care Services (BHCS) as a medication that is required to be administered* by a nurse or that the prescriber or registered nurse has determined is unsafe for the prisoner to possess.
- Controlled substance: Restricted medication* that is subject to special handling requirements by federal regulations. These substances are included in Schedule I, II, III, IV, or V of the federal Controlled Substances Act (i.e., Title 21, section 801, et seq., of the *United States Code*, which controls the manufacture, distribution, and dispensing* of controlled substances).
- Dispensing and emergency drug boxes: Medications maintained in the physician dispensing box (PDB), the emergency drug box (EDB), or the dentist dispensing box (DDB) to be used for a one-time or short duration non-emergent need, in case of emergency, or until a prescription can be obtained.

AUDIT OBJECTIVE

To assess the effectiveness* of DOC's internal control* over prisoner pharmaceuticals.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- DOC monitored the pharmaceutical contractor's service level agreements on a monthly, quarterly, and annual basis. For November 2017, DOC reported that it received

* See glossary at end of report for definition.

99.38% of mail order prescriptions on a timely basis with a .02% error rate, exceeding the 90% and .05% thresholds.

- DOC ensured that its pharmaceutical contractor conducted quarterly facility audits for compliance with medication management practices.
- DOC contracted with a third party to help ensure compliance with DOC's healthcare contract, including factors related to managing its prescription drug program, and to provide data analysis and technical expertise.
- DOC properly administered prisoner medications at the 10 locations where we observed the process.
- All persons authorized to prescribe medication were properly licensed at the 5 facilities reviewed.
- DOC utilized an electronic process to record the receipt of medication shipments, interface with the prisoner tracking system, and reconcile the medications received to the medications ordered.
- The PDBs and EDBs that we reviewed contained only approved medications, and access was appropriately restricted to appropriate personnel.
- Reportable conditions* related to improving compliance with controls over controlled substance medications (Finding #1) and medication boxes (Finding #2) and enhancing controls over restricted medications (Finding #3).

* See glossary at end of report for definition.

FINDING #1

Compliance with controlled substance medication controls could be improved.

DOC could better safeguard and account for controlled substance medication inventories to reduce the risk of loss, theft, or abuse.

In accordance with Section 18.1485 of the *Michigan Compiled Laws*, DOC's controls over inventories of assets most susceptible to loss, theft, or abuse should include the segregation of duties among those responsible for receiving and maintaining inventory, performing physical inventory counts, and verifying that nursing shift-change counts took place. Controlled substance medications are susceptible to loss, theft, and abuse because they can be costly, easy to conceal, and sought after for their mind-altering properties or street value.

Our review of BHCS's controlled substance medication controls during site visits at 10 locations disclosed:

- a. BHCS staff at the 10 locations did not properly perform, document, or monitor shift-change counts of controlled substance medications. Specifically:
 - (1) BHCS staff could not provide us with 39 (10.5%) of the 371 required shift-change count logs (4 locations). Each shift-change count log covers the shift-change counts for a one-month period and represents the transfer of accountability over all of the controlled substances from one shift to the next.
 - (2) The health unit manager (HUM) or nursing supervisor had not signed the shift-change count log for 375 (35.5%) of the 1,056 weeks included on the 332 shift-change count logs provided (9 locations). Therefore, BHCS could not ensure that the logs were monitored.

DOC operating procedure 03.04.100C requires that 2 BHCS staff document the inventory of all controlled substances, including a comparison with the perpetual inventory record, at each shift change. The procedure also requires the HUM or nursing supervisor to document review of the shift-change count log at least weekly.

- b. BHCS staff at 1 location did not document the disposition of the medications or the HUM or nursing supervisor signature on the master inventory records for 56 (17.0%) of the 329 controlled substance medications that we reviewed that had been received by the location from June 2016 through September 2017.

The master inventory identifies all controlled substances delivered to the location and provides a means to track the individual perpetual inventory sheets for prisoners' controlled substance medications, decreasing the risk that theft of a controlled substance and the corresponding perpetual inventory sheet could occur and not be detected in a timely manner. Also, the BHCS Medication Management Manual requires the disposition of all

controlled substances used, sent for destruction, discontinued, or distributed for a transferred prisoner to be documented on the controlled substance master inventory. In addition, the HUM or nursing supervisor signature provides verification that the medication was properly accounted for.

- c. BHCS staff at 5 locations maintained controlled substance medications that exceeded the 35-day limit for 9 (10.6%) of the 85 medications that we reviewed for 65 prisoners. The excess supply ranged from 1 day to 33 days.

The BHCS Medication Management Manual restricts the supply of medication on hand for any prisoner to a 35-day supply.

- d. BHCS staff at 1 location confirmed that only one person received and processed medications delivered to the location regardless of whether the shipment contained controlled substance medications. Although no controlled substance medications were delivered to the location on the day that we observed the process, BHCS staff did not review the shipping manifest before receiving the medication delivery to determine whether controlled substance medications would be in the shipment.

DOC operating procedure 03.04.100C requires that 2 staff pick up shipments if controlled substances are expected in the shipment.

- e. One location did not have the equipment to properly destroy single-dose controlled substances that were expired or otherwise determined to be unusable. BHCS staff at the location indicated that they disposed of controlled substances medications in the container designated for non-controlled medications. Subsequent to our visit, staff notified us that they obtained an RXDestroyer to properly destroy single-dose controlled substances.

DOC's Pharmacy & Medication Management Manual requires that all individual controlled substances be disposed of using the RXDestroyer or CACTUS systems.

RECOMMENDATION

We recommend that DOC ensure that healthcare staff adhere to controls over controlled substance medication inventories.

AGENCY PRELIMINARY RESPONSE

DOC provided us with the following response:

DOC agrees with the recommendation and will ensure that healthcare staff adhere to established controls. DOC will continue to monitor its current protocols to ensure staff are compliant with established processes and as part of our internal audit process, the pharmacy contractor will also review protocols.

FINDING #2

Compliance with medication box controls needs improvement.

DOC should ensure compliance with medication box inventory controls. We identified medications that were missing, not properly accounted for, not properly safeguarded from unauthorized use, and not properly returned for credit.

We reviewed the controls over and counted approximately 1,120 medications maintained in the 15 PDBs and 12 EDBs at 8 of the facilities that we visited. We noted:

- a. BHCS did not maintain accurate inventory of 58 (5.2%) medications dispensed to the boxes at 5 facilities:
 - (1) The perpetual inventory records for 31 (2.8%) medications (4 facilities) did not agree with our physical counts. Discrepancies ranged from a shortage of 90 units to an excess of 30 units.
 - (2) BHCS did not have a perpetual inventory record for 27 (2.4%) medications (2 facilities).

We noted that 27 of the discrepancies cited in part (1) and 26 of the missing inventory records cited in part (2) were at the same facility.

DOC's Pharmacy & Medication Management Manual requires facilities to maintain an accurate count of all medications contained in the PDBs and EDBs.

- b. BHCS at 1 facility did not secure its 2 PDBs and 2 EDBs with numbered seals to document access to the boxes. Also, BHCS at 1 other facility could not provide logs documenting access history to its PDBs and EDBs for 10 and 11 months, respectively, of the 20-month audit period.

DOC operating procedure 03.04.100C requires facilities to secure medication boxes using numbered plastic seals and to maintain a seal inventory count log to document the opening and resealing of the boxes.

- c. BHCS had 50 (4.5%) medications that exceeded 120% of the allowable maximum quantity (5 facilities).

DOC's PDB and EDB inventory forms and its Pharmacy & Medication Management Manual indicate a maximum quantity for each medication approved to be maintained in the boxes. We allowed a 20% overage in inventory as we acknowledge that DOC would need to order the medications prior to depleting the stock on hand and that medications typically have minimum order quantities.

- d. BHCS, at the 5 facilities where we reviewed the medication expiration dates, maintained 43 (5.0%) medications, of approximately 860 medications maintained in 12 PDBs and 9 EDBs, that were within 120 days of their expiration date. These medications were full blister

cards*, bottles, or vials and could have been returned to the vendor for credit.

DOC's Pharmacy & Medication Management Manual states that PDB and EDB box stock is rotated out at 120 days of expiration to help ensure that credit is received.

In our March 2011 performance audit* of Pharmaceutical Costs, Department of Corrections (471-0325-09L), we reported on BHCS's physical security and inventory of medication boxes. In response to that audit report, DOC stated that it agreed and that it was taking steps to comply. BHCS made significant improvements; however, it should continue to improve compliance with established controls.

RECOMMENDATION

We recommend that DOC improve compliance with controls over its medication box inventories.

**AGENCY
PRELIMINARY
RESPONSE**

DOC provided us with the following response:

DOC agrees with the recommendation, acknowledges that there is opportunity to improve, and will focus on the area(s) with discrepancies. DOC believes it is noteworthy to document that it is 95% compliant.

DOC will continue to monitor current protocols and address identified issues. When the Corrections Offender Management System (COMS) is fully implemented, there will be the ability to generate reports to monitor inventory in the medication boxes.

* See glossary at end of report for definition.

FINDING #3

Enhanced control needed over restricted medications.

DOC could improve controls over high-cost or high-risk restricted, non-controlled medications to help decrease pharmaceutical costs and the risk of loss, theft, or abuse.

Consistent with Section 18.1485 of the *Michigan Compiled Laws*, DOC's controls over inventories of assets most susceptible to loss, theft, or abuse should include performing periodic and annual physical inventory counts. Also, DOC's Pharmacy & Medication Management Manual requires that controlled substances, high cost medications, injections (syringes), and hepatitis C virus treatment medications be inventoried every shift.

DOC maintains numerous restricted medications with a unit cost exceeding \$100 and utilizes various restricted medications that its formulary* identifies as having a high potential for abuse. Also, during fiscal year 2017, the pharmaceutical contractor dispensed \$40.9 million of pharmaceuticals to DOC, net of \$2.3 million (5.7%) for returned medications.

Our review of prisoners' restricted medications at 8 locations and the medication return procedures at 10 locations noted:

- a. BHCS staff at 5 of the 8 locations did not periodically inventory any of their high-cost or high-risk restricted, non-controlled medications.
- b. BHCS staff at 3 of the 8 locations maintained a perpetual inventory system of their high-cost hepatitis C medications; however, they did not periodically inventory their other high-cost or high-risk restricted, non-controlled medications.
- c. None of the 10 locations logged medications as they were set aside for return, and the 7 locations that we asked, indicated that only one person removed the medications from the return bin and prepared the return manifest.

We noted a similar condition in our March 2011 performance audit of Pharmaceutical Costs, Department of Corrections (471-0325-09L). In response to that audit report, DOC indicated that it would periodically inventory its high-cost restricted medications and seek technology to effectively compare periodic counts to what should be on hand. Subsequently, DOC implemented technology to electronically document received medications. However, DOC had not implemented an electronic medication administration record and, therefore, did not have a perpetual inventory record and had not consistently performed physical counts.

RECOMMENDATION

We recommend that DOC improve controls over high-cost or high-risk restricted, non-controlled medications.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

DOC provided us with the following response:

DOC agrees with the recommendation and will improve controls over high-risk and high-cost restricted, non-controlled medications.

DOC has implemented an effective technological solution through our current pharmacy contract. Additionally, Phase I of COMS will include implementation of an electronic medication administration record. There will also be enhanced reports as part of COMS that can be generated related to medications.

Through utilization of COMS and our Pharmacy contract, we will continue to enhance our controls and inventory process of high-cost or high-risk restricted, non-controlled medications.

MANAGING PRISONER PHARMACEUTICAL COSTS

BACKGROUND

DOC pays its healthcare contractor a monthly fixed rate per prisoner for the physical, behavioral, and pharmaceutical needs of each prisoner under its jurisdiction. The monthly fixed rate includes a base component to cover pharmacy staffing and dispensing costs and a risk share component to incorporate the pharmaceutical costs (actual acquisition costs* less rebates and discounts). If the actual cost of the risk share component exceeds the risk share target amount, DOC shares the excess costs equally with the contractor up to the agreed-upon risk share cap. Alternatively, if the actual cost of the risk share component is below the target amount, DOC will receive 85% of the savings. All risk share costs in excess of the cap are the responsibility of the contractor.

Hepatitis C medication costs are billed in a unique manner. Only \$374,000 of the monthly total is included within the risk share component of the contract. The contractor separately bills DOC for the amount exceeding that limit based on its actual acquisition cost.

We prepared the following exhibits related to DOC's pharmaceutical costs:

- Exhibit #1 - Pharmaceutical cost analysis for fiscal years 2011 through 2017.
- Exhibit #2 - Pharmaceutical utilization by primary drug category for fiscal year 2017.
- Exhibit #3 - Pharmaceutical utilization by secondary drug category for fiscal year 2017.
- Exhibit #4 - Top 40 drug utilization for November 2017.

AUDIT OBJECTIVE

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

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- DOC competitively bid the healthcare contract (including pharmaceutical services), effective June 1, 2016 through May 31, 2021, utilizing State procurement procedures.

* See glossary at end of report for definition.

- As a means to control costs, DOC incorporated a risk share pricing structure into the healthcare contract that requires the contractor to share in or absorb excessive costs.
- DOC conducted various monitoring activities, including reviewing the pharmaceutical contractor's service level agreements and pharmaceutical utilization reports, on a monthly, quarterly, and annual basis.
- DOC facilities did not have a significant amount of excess restricted medications on hand.
- DOC's costs for atypical antipsychotic medications*, over-the-counter medications* prescribed to prisoners, duplicate prescription orders, and medications purchased from local pharmacies for the periods reviewed were not significant.
- Reportable conditions related to improving the pharmaceutical billing verification processes (Finding #4) and improving the nonformulary prescription approval process (Finding #5).

* See glossary at end of report for definition.

FINDING #4

Pharmaceutical billing verification processes need improvement.

DOC should improve its processes to verify pharmaceutical billings, including verification that it received all billed medications, received credit for all returned medications, received all applicable rebates, and was billed at the contractor's acquisition costs.

During fiscal year 2017, the pharmaceutical contractor dispensed \$40.9 million of pharmaceuticals to DOC, net of \$2.3 million for returned medications, and credited DOC \$1.8 million for rebates (4.3%). Our review noted:

- a. DOC did not effectively or efficiently verify the accuracy of its pharmaceutical billing detail.

Once a month, the contractor sends a billing invoice to DOC, including detailed facility-specific pharmaceutical activity. DOC operating procedure 03.04.100C and DOC's Pharmacy & Medication Management Manual require BHCS staff at the facilities to verify the accuracy of the billing detail with the medication shipping and return manifests.

Our review of DOC's billing detail verification process at 8 facilities disclosed:

- (1) BHCS staff may not have conducted a complete verification of the billing detail and the extent of their review varied by facility. We noted:
 - (a) BHCS staff at 5 facilities asserted that they either spot checked or conducted a 100% review of the pharmaceuticals received to the billing detail; however, they did not maintain documentation of their review.
 - (b) BHCS staff at 4 facilities asserted that they verified 100% of the items on the return manifests to the billing detail; however, they did not maintain documentation of their review.

We noted a similar situation in our March 2011 performance audit of Pharmaceutical Costs, Department of Corrections (471-0325-09L). In response to that audit report, DOC stated that it agreed and would clarify its operating procedures regarding how staff should perform, document, and retain the billing verification documentation; explore the possibility of automating the reconciliation process; and use a third party contractor to conduct independent reviews of pharmaceutical billing verifications. However, our review indicated that DOC had not implemented these corrective actions.

- (2) DOC had not automated its billing detail reconciliation process.

Section 18.1485 of the *Michigan Compiled Laws* requires that each State department maintain an internal accounting and administrative control system, including internal control techniques that are effective and efficient. Also, in its March 2015 report, DOC's third party BHCS contract reviewer recommended that DOC centralize and automate its pharmaceutical billing reconciliation process.

BHCS staff at the 8 facilities indicated that they spend 8.5 hours on average each month performing these reconciliations. Based on this and the average cost of a pharmacy technician, per the Civil Service Commission compensation plan as of October 1, 2017, we estimated that it costs DOC approximately \$115,000 per year to perform the monthly detail reconciliations.

To demonstrate the effectiveness and efficiency* of automating the billing detail reconciliation process, we performed a reconciliation of one facility's November 2017 billing detail using data analytics software. Within one hour, we matched the billing detail with the medications received and returned, within .53%.

DOC indicated that the billing detail file was not formatted to allow it to easily reconcile the information with its data analytics software and that it is working on resolving this issue.

- b. DOC did not ensure that it received all applicable rebates or that it was properly billed for pharmaceutical costs.

The pharmaceutical contractor receives rebates from the pharmaceutical wholesalers on the purchase of drugs. Not all drugs have an associated rebate, and rebate amounts vary based on factors including the drug purchased, the drug manufacturer, and the quantity purchased. DOC's pharmaceutical services contract requires that the contractor pass on 100% of the rebates related to pharmaceuticals dispensed to DOC and charge DOC its actual acquisition costs of pharmaceuticals purchased.

On August 15, 2016, DOC contracted with a third party to review and validate the completeness of rebates and the accuracy of pharmaceutical pricing and to report discrepancies, duplicates, errors, and administrative and payment irregularities to DOC on an annual basis. However, the third party reviewer had not provided DOC with any feedback related to rebates and had not provided

* See glossary at end of report for definition.

DOC with feedback related to pricing until a draft report was issued in April 2018.

DOC's contract monitoring efforts did not facilitate effective communication between its pharmaceutical contractor and its third party reviewer to ensure the sharing of data necessary for analysis and timely reporting.

We noted a similar condition in our March 2011 performance audit of Pharmaceutical Costs, Department of Corrections (471-0325-09L), related to monitoring pharmaceutical rebates and verifying actual acquisition costs. In response to that audit report, DOC stated that it agreed and that it would comply. However, as noted in this finding, BHCS had not received timely feedback from its third party reviewer.

RECOMMENDATIONS

We recommend that DOC implement effective and efficient processes to verify the accuracy of its pharmaceutical billings.

We also recommend that DOC require its third party reviewer to submit pharmaceutical rebate and cost verification reporting in a timely manner.

AGENCY PRELIMINARY RESPONSE

DOC provided us with the following response:

DOC agrees with the recommendations, will take steps to continue to improve its processes, and will ensure we receive timely reporting through our third-party reviewer. DOC will explore data analytic software to automate billing and in the meantime, will ensure our manual verification process is consistent at all locations. The issue with the timeliness of reports from our third-party reviewer has been resolved at the time of this response.

FINDING #5

Approval process for nonformulary prescriptions needs improvement.

BHCS did not always obtain approval for the use of nonformulary drugs* prescribed by healthcare professionals. Therefore, BHCS could not ensure that medications were being prescribed at the lowest cost to the State while maintaining prisoner health care.

DOC's drug formulary is a listing of drugs that have been approved for use by the Pharmacy and Therapeutic Committee as a means of providing managed care with quality cost-effective treatment. However, when a nonformulary drug must be used because of medical necessity, DOC operating procedure 03.04.100C requires the assistant chief medical officer* or chief psychiatric officer to provide prior approval.

Excluding hepatitis C medications and medications dispensed to facilities that are exempt from formulary restrictions, data provided by the pharmaceutical contractor indicated that BHCS purchased \$11.9 million in nonformulary drugs (16.8% of total prescription expenditures) from June 2016 through December 2017.

Our review of 53 prescriptions written for nonformulary drugs dispensed during that period disclosed that BHCS did not obtain the assistant chief medical officer's or the chief psychiatric officer's approval for 5 (9.4%) prescriptions. Although 2 of the 5 had initially been approved, the drugs were prescribed 14 to 19 months after the approval had expired.

In our March 2011 performance audit of Pharmaceutical Costs, Department of Corrections (471-0325-09L), we reported on BHCS's approval, documentation, and continued use of nonformulary drugs. BHCS agreed with the prior recommendations and indicated that it was taking steps to comply. We noted that BHCS had complied with 2 of the 3 prior recommendations; however, we still identified a 9.4% exception rate related to nonformulary drug approvals.

RECOMMENDATION

We recommend that BHCS obtain proper approvals for nonformulary drugs prescribed by healthcare professionals.

AGENCY PRELIMINARY RESPONSE

DOC provided us with the following response:

DOC agrees with the recommendation.

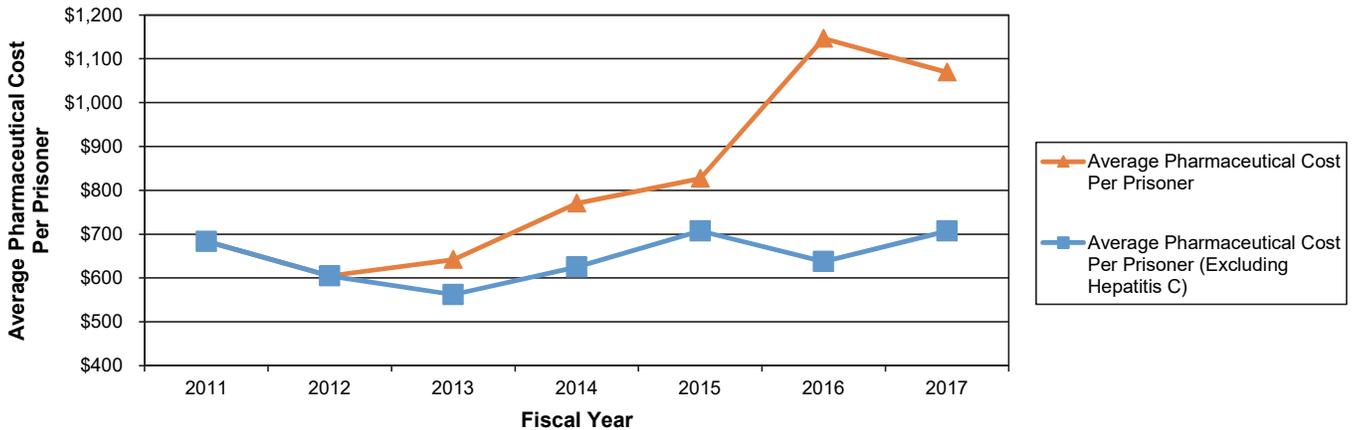
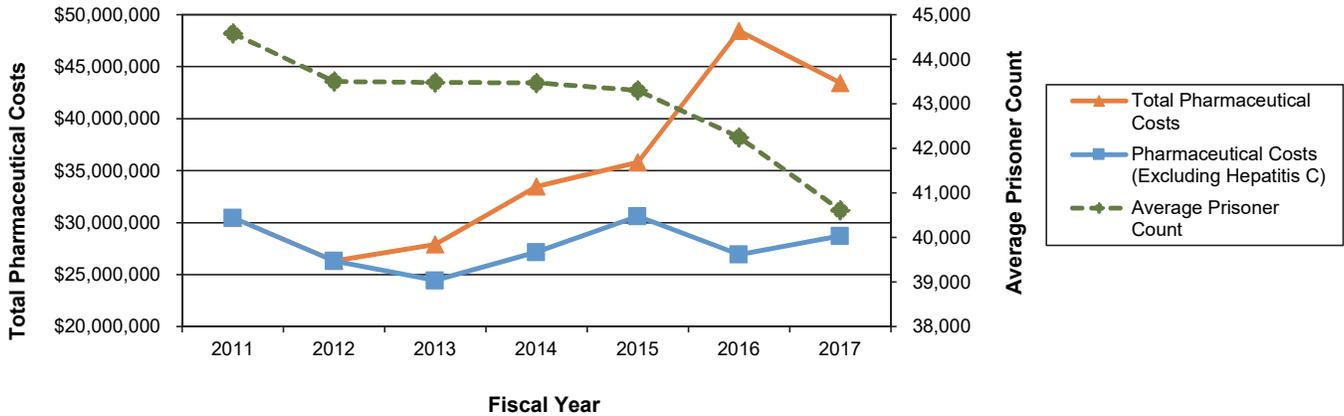
DOC does have a standard process and will continue to enforce compliance. DOC has made significant improvement in the overall exception rate since the 2011 OAG audit. A written reminder will be sent to our contractor/providers of the existing process for non-formulary approvals and their contractual requirement for compliance.

* See glossary at end of report for definition.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

PRISONER PHARMACEUTICALS
Department of Corrections (DOC)
Pharmaceutical Cost Analysis
Fiscal Years 2011 Through 2017



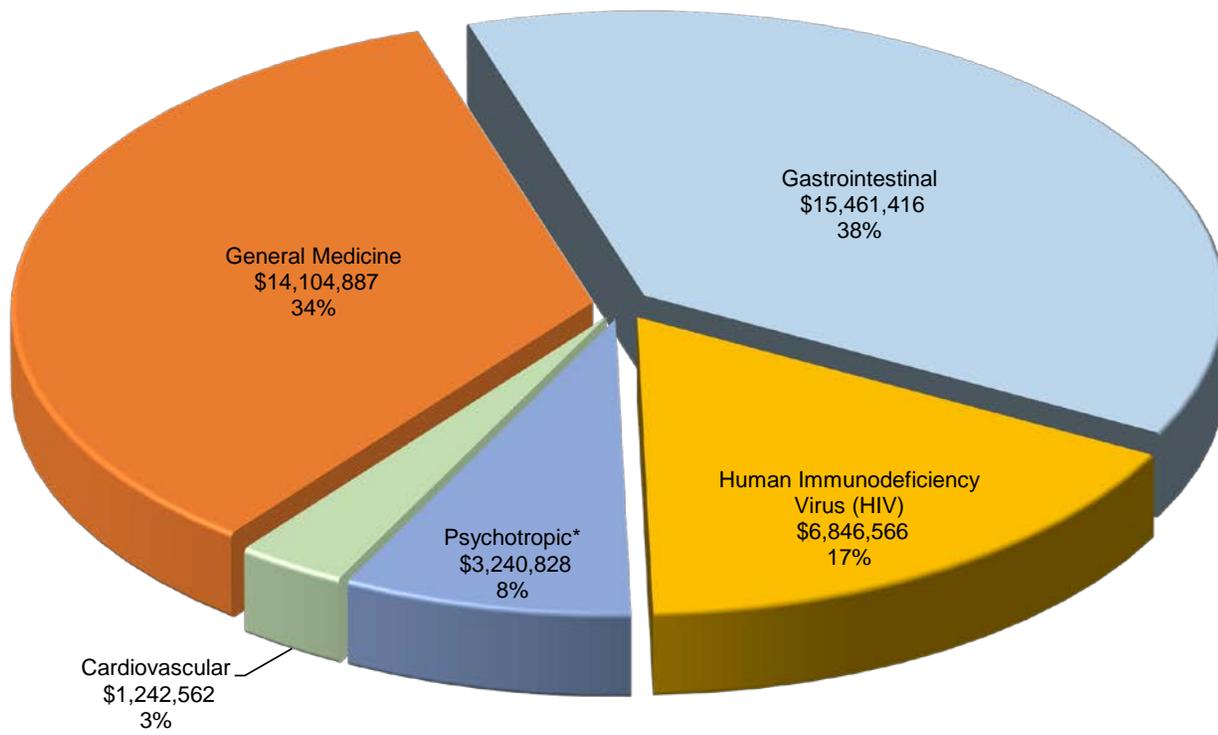
Fiscal Year	Pharmaceutical Costs*	Hepatitis C Costs**	Total Pharmaceutical Costs	Average Prisoner Count	Average Pharmaceutical Cost	
					Per Prisoner*	Per Prisoner
2011	\$30,475,763		\$30,475,763	44,581	\$684	\$ 684
2012	\$26,319,863		\$26,319,863	43,501	\$605	\$ 605
2013	\$24,444,617	\$ 3,467,296	\$27,911,913	43,479	\$562	\$ 642
2014	\$27,173,897	\$ 6,307,498	\$33,481,395	43,470	\$625	\$ 770
2015	\$30,626,186	\$ 5,175,779	\$35,801,965	43,300	\$707	\$ 827
2016	\$26,943,788	\$21,493,213	\$48,437,001	42,250	\$638	\$1,146
2017	\$28,727,252	\$14,708,875	\$43,436,127	40,616	\$707	\$1,069

* Excluding hepatitis C costs for fiscal years 2013 through 2017.

** Hepatitis C costs were not tracked by DOC prior to fiscal year 2013 and, therefore, were not separately identified.

Source: The OAG prepared this exhibit based on accounting data obtained from the Michigan Administrative Information Network and prisoner census reports and medication order data obtained from DOC. These costs include the amounts paid to DOC's contractor for the cost of the medications and the contractor's staffing and dispensing fees.

PRISONER PHARMACEUTICALS
Department of Corrections (DOC)
Pharmaceutical Utilization by Primary Drug Category
October 1, 2016 Through September 30, 2017

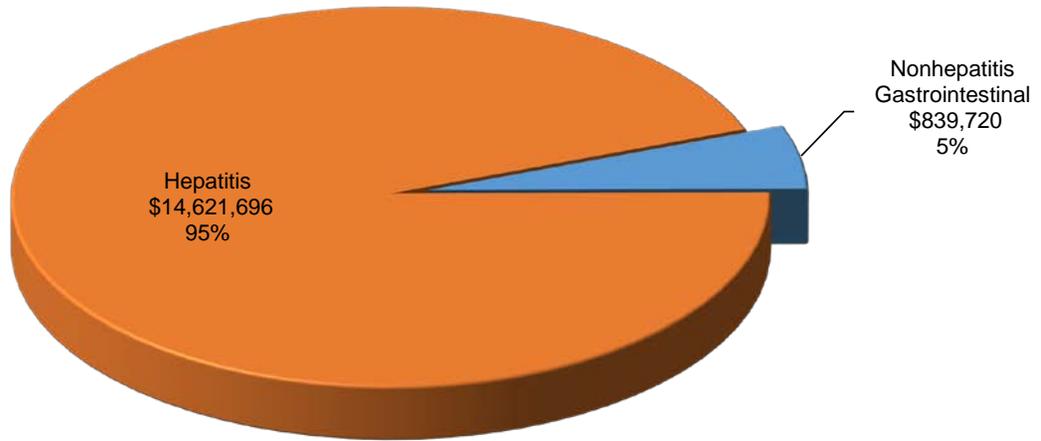


Source: The OAG prepared this exhibit based on data obtained from DOC's pharmaceutical contractor. The exhibit represents only the cost of the medications (net of returns) dispensed to DOC.

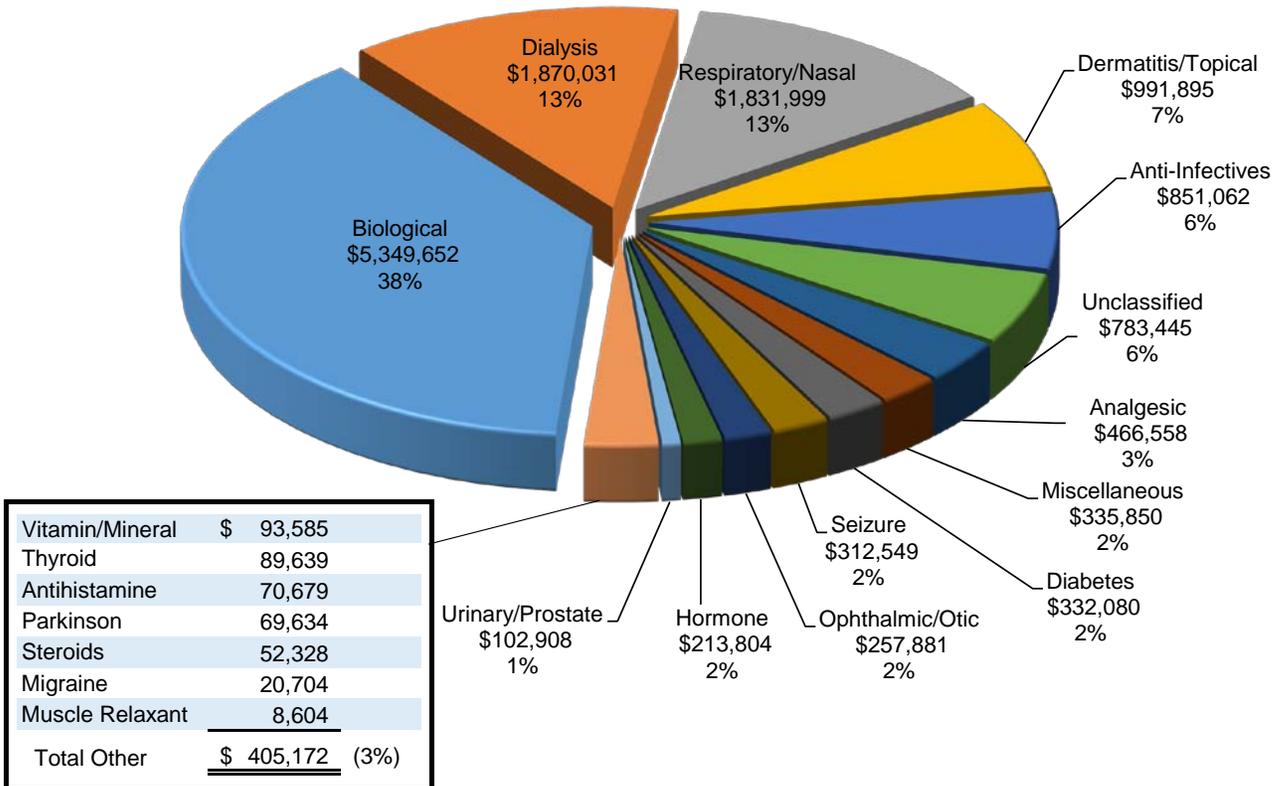
* See glossary at end of report for definition.

PRISONER PHARMACEUTICALS
Department of Corrections (DOC)
Pharmaceutical Utilization by Secondary Drug Category
October 1, 2016 Through September 30, 2017

Gastrointestinal Drugs

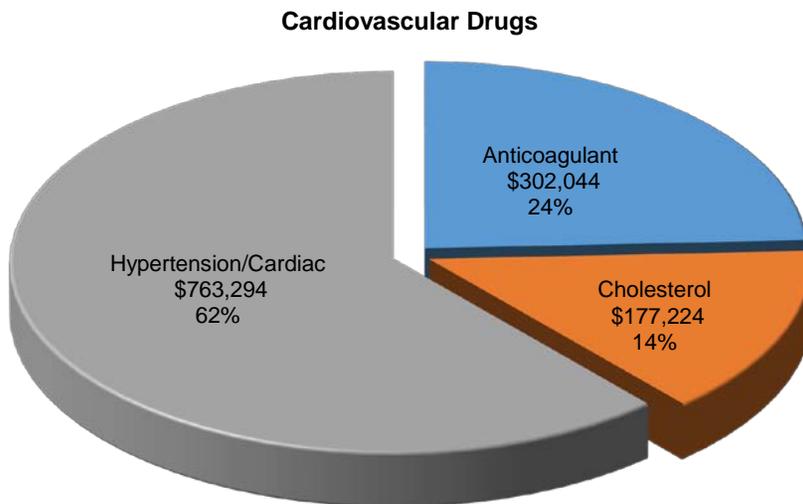
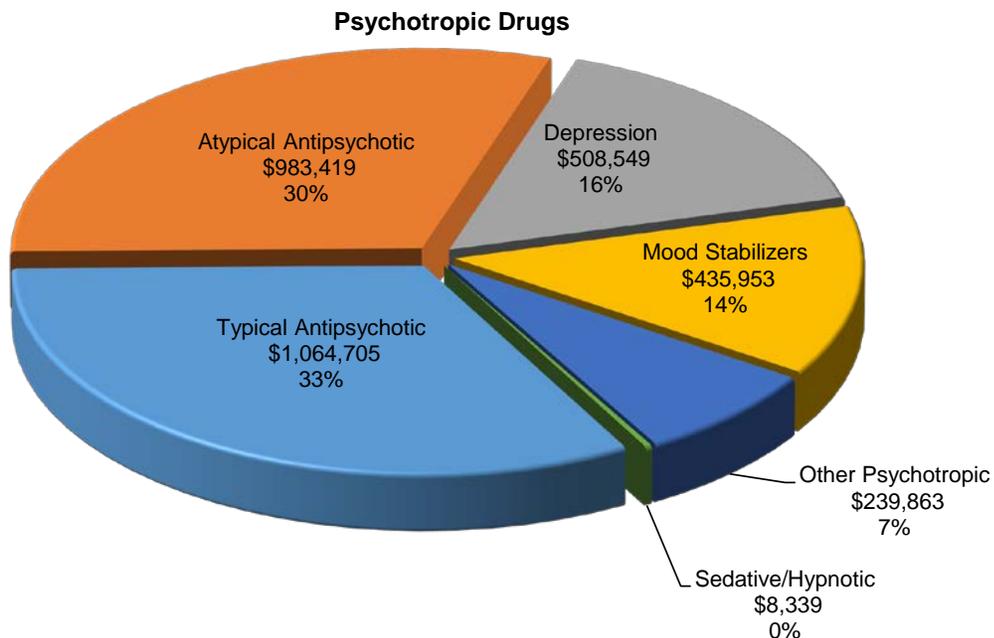


General Medicine Drugs



This exhibit continued on next page.

PRISONER PHARMACEUTICALS
Department of Corrections (DOC)
Pharmaceutical Utilization by Secondary Drug Category
October 1, 2016 Through September 30, 2017



Source: The OAG prepared this exhibit based on data obtained from DOC's pharmaceutical contractor. The exhibit represents only the cost of the medications (net of returns) dispensed to DOC.

PRISONER PHARMACEUTICALS
Department of Corrections (DOC)
Top 40 Drug Utilization
For the Month of November 2017

Rank	Drug Name	Brand Name	Primary Drug Category	Quantity	Net Cost and Percentage of Primary Drug Category	
					Net Cost	Percentage
1	Sofosbuvir/Velpatasvir	Epclusa	Gastrointestinal	1,960	\$ 581,235	(67%)
2	Dolutegravir	Tivicay	HIV	3,000	145,122	(24%)
3	Glatiramer	Copaxone	General Medicine	622	106,278	(9%)
4	Adalimumab	Humira	General Medicine	48	104,458	(8%)
5	Darbepoetin	Aranesp	General Medicine	245	93,757	(8%)
6	Tenofovir disoproxil	Viread	HIV	2,790	93,740	(15%)
7	Elvit/Cobic/Emtr/Ten Alaf	Genvoya	HIV	1,050	91,139	(15%)
8	Ledipasvir/Sofosbuvir	Harvoni	Gastrointestinal	224	86,436	(10%)
9	Sofosb/Velpat/Voxila	Vosevi	Gastrointestinal	112	83,033	(10%)
10	Darunavir/Cobicistat	Prezcobix	HIV	1,500	82,044	(13%)
Total cost of the top 10 drug utilization					\$ 1,467,242	
Top 10 drug cost as a percentage of total pharmaceutical cost						48%
11	Ciclesonide	Alvesco	General Medicine	6,375	79,890	(6%)
12	Efavirenz	Sustiva	HIV	2,102	64,930	(11%)
13	Ecuzumab	Soliris	General Medicine	270	58,707	(5%)
14	Albuterol	Proair	General Medicine	8,653	52,488	(4%)
15	Cinacalcet	Sensipar	General Medicine	1,020	48,225	(4%)
16	Hepatitis B vaccine	Engerix-B	General Medicine	1,085	44,079	(4%)
17	Etanercept	Enbrel	General Medicine	36	39,178	(3%)
18	Glecaprevir/Pibrentasvir	Mavyret	Gastrointestinal	252	38,614	(4%)
19	Sevelamer	Renvela	General Medicine	10,370	34,539	(3%)
20	Haloperidol	Haldol	Psychotropic	20,970	31,145	(14%)
Total cost of the top 20 drug utilization					\$ 1,959,037	
Top 20 drug cost as a percentage of total pharmaceutical cost						64%
21	Abacavir/Lamivudine	Epzicom	HIV	4,050	26,798	(4%)
22	Tuberculin	Aplisol/Tubersol	General Medicine	505	26,033	(2%)
23	Immune globulin human	Gamunex-C	General Medicine	3,100	25,627	(2%)
24	Abiraterone a	Zytiga	General Medicine	300	23,020	(2%)
25	Humulin 70/30, N & R	Humulin	General Medicine	17,220	22,386	(2%)
26	Risperidone	Risperdal/consta	Psychotropic	26,411	19,419	(9%)
27	Tbo-filgrastim	Granix	General Medicine	52	19,175	(2%)
28	Infliximab dyyb	Inflectra	General Medicine	27	18,428	(1%)
29	Interferon b-1a	Avonex	General Medicine	12	18,254	(1%)
30	Rilpivirine	Eduvant	HIV	570	18,001	(3%)
Total cost of the top 30 drug utilization					\$ 2,176,178	
Top 30 drug cost as a percentage of total pharmaceutical cost						71%
31	Tet-diph-pert vaccine (Tdap)	Boostrix	General Medicine	282	17,999	(1%)
32	Carbamazepine	Tegretol/carbatrol	Psychotropic	53,456	17,237	(8%)
33	Dasatinib	Sprycel	General Medicine	52	16,093	(1%)
34	Tenofovir Alafenamide	Vemlidy	HIV	480	15,645	(3%)
35	Efavirenz/Emtricit/Tenofovir	Atripla	HIV	180	14,449	(2%)
36	Hepatitis A vaccine	Havrix	General Medicine	242	12,874	(1%)
37	Vancomycin	Vancocin	General Medicine	662	12,827	(1%)
38	Paliperidone	Invega Sustenna	Psychotropic	81	12,458	(6%)
39	Venlafaxine IR/XR	Effexor	Psychotropic	88,044	12,225	(5%)
40	Fluphenazine PO & INJ	Prolixin	Psychotropic	1,695	12,081	(5%)
Total cost of the top 40 drug utilization					\$ 2,320,066	
Top 40 drug cost as a percentage of total pharmaceutical cost						76%
Total November 2017 pharmaceutical costs					\$ 3,050,730	

Source: The OAG prepared this exhibit based on data obtained from DOC's pharmaceutical contractor.

DESCRIPTION

As of January 31, 2018, DOC had 32 correctional facilities located throughout the State and, from June 2016 through January 2018, was responsible for the custody and safety of an average of 40,690 prisoners.

DOC's BHCS is responsible for coordinating healthcare services, including pharmaceutical operations, throughout the State-run prison system.

Effective June 1, 2016, DOC contracted with Corizon Health, Inc., to provide integrated prisoner health care, including the purchase and delivery of pharmaceuticals, management of an on-site pharmacy, pharmacy claims payment, polypharmacy prevention and management, analysis and support of prescribing patterns, and a formulary with a goal of maximizing efficacy and efficiency while minimizing waste and cost.

For fiscal year 2017, DOC provided pharmaceuticals to a monthly average of 40,616 prisoners and incurred total pharmaceutical expenditures of \$43.4 million, at an average cost of \$1,069 per prisoner, including treating 579 prisoners for the hepatitis C virus at a cost of \$14.7 million (see Exhibit #1). Because of the high cost of these medications, DOC received a separate appropriation for the treatment of hepatitis C beginning in fiscal year 2017.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the processes and records related to prisoner pharmaceuticals. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Specifically, we reviewed records related to prisoner pharmaceutical data, costs, controls, and other related records at the DOC central office; 9 correctional facilities (Bellamy Creek, Earnest C. Brooks, Chippewa, Lakeland, Macomb, Saginaw, Women's Huron Valley, and Woodland Correctional Facilities and the Detroit Reentry Center); and the Duane L. Waters Health Care Center.

Our audit was not directed toward examining medical decisions made by healthcare professionals, including contracted healthcare professionals, concerning patient treatment and prescribed medications or expressing conclusions on those medical decisions; accordingly, we express no conclusion on those medical decisions.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered June 1, 2016 through January 31, 2018.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of DOC's prisoner pharmaceuticals operation to formulate a basis for establishing our audit objectives and defining our audit scope and methodology. During our preliminary survey, we:

- Interviewed BHCS management and staff regarding their functions and responsibilities.
- Reviewed applicable DOC operating procedures, supplemental guidance, and statutes.
- Reviewed the pharmaceutical services contract and related reports.
- Analyzed prisoner prescription data and pharmaceutical expenditures.
- Conducted site visits at 5 locations to obtain an understanding of the various pharmaceutical processes and controls.

OBJECTIVE #1

To assess the effectiveness of DOC's internal control over prisoner pharmaceuticals.

To accomplish this objective, we:

- Reviewed DOC's contract monitoring plan and a listing of the various audits and peer reviews conducted by BHCS.
- Reviewed documentation of quarterly facility audits conducted by DOC's pharmaceutical contractor.
- Conducted site visits at 9 correctional facilities (Bellamy Creek, Earnest C. Brooks, Chippewa, Lakeland, Macomb, Saginaw, Women's Huron Valley, and Woodland Correctional Facilities and the Detroit Reentry Center) and the Duane L. Waters Health Care Center. We judgmentally selected and performed on-site visits at these locations primarily based on geographical location and facility characteristics.
- Observed the administration of medications to prisoners and reviewed related documentation at the 10 locations that we visited.
- Observed the receipt of pharmaceutical deliveries at the 9 facilities that we visited and examined related documentation.
- Reviewed controls over restricted medication and keep-on-person medication*. During our site visits at 8 correctional facilities (Bellamy Creek, Earnest C. Brooks, Chippewa, Lakeland, Macomb, Saginaw, Women's Huron Valley, and Woodland), we performed a physical count of 748 restricted medications that were prescribed for a total of 186 prisoners. To verify the accuracy of the medications on hand, we compared our count of each prisoner's medications with the total number expected based on our count date, the previous order/refill date, the quantity most recently ordered/refilled, and the daily dosage prescribed. We judgmentally selected samples of prisoners at each of the facilities primarily based on the prisoners who had the highest drug costs and the prisoners who had the highest number of prescriptions. Therefore, we could not project the results to the entire population.
- Observed controls, reviewed documentation, and verified the accuracy of the inventory records of controlled substances at the 10 locations visited.
- Observed controls, reviewed documentation, and verified the accuracy of the inventory records of the

* See glossary at end of report for definition.

PDBs, EDBs, and DDBs, as applicable, at 8 correctional facilities (Bellamy Creek, Earnest C. Brooks, Chippewa, Lakeland, Saginaw, Women's Huron Valley, and Woodland Correctional Facilities and the Detroit Reentry Center) that we visited.

- Reviewed licenses and certifications of staff who prescribe medication and verified authorization to access PDBs, EDBs, and DDBs at 5 correctional facilities (Chippewa, Lakeland, Saginaw, Women's Huron Valley, and Woodland) that we visited.
- Reviewed processes and controls related to prisoner medication returns and refills at the 10 locations visited and disposals at the 9 facilities that we visited.

OBJECTIVE #2

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

To accomplish this objective, we:

- Analyzed DOC's pharmaceutical prescription data provided by the pharmaceutical contractor, including costs related to hepatitis, atypical antipsychotic, and over-the-counter medications; duplicate pharmaceutical orders; and medications purchased from local pharmacies in relation to total pharmaceutical costs.
- Reviewed DOC's monitoring of its contractor's utilization reports and other information that DOC reviewed to help manage prisoner pharmaceuticals.
- Reviewed DOC's contract with its healthcare third party reviewer and the related required reports to understand the impact of the contract on DOC pharmaceutical costs.
- Tested 53 nonformulary medication orders, dispensed from June 2016 through December 2017, to determine whether the orders were properly approved and that sufficient justification was documented. We randomly selected 47 and judgmentally selected 6 sample items to enable us to project the results to the entire population and to ensure that we obtained sufficient coverage of the high-cost medications.
- Reviewed the pharmaceutical contract bidding, monitoring, and billing verification processes, including the pharmaceutical contractor's risk share calculation, and DOC's process to ensure proper credits for returns and rebates.
- Reviewed DOC's processes and controls related to medication refills at the 10 locations that we visited. Also, we compared the number of days' supply on hand

for 810 restricted medications that were prescribed for a total of 198 prisoners with DOC's excess supply policy, during our site visits at 8 correctional facilities (Bellamy Creek, Earnest C. Brooks, Chippewa, Lakeland, Macomb, Saginaw, Women's Huron Valley, and Woodland), to determine if the facilities had excessive medications on hand. We judgmentally selected samples of prisoners at each of the facilities primarily based on the prisoners who had the highest drug costs and the prisoners who had the highest number of prescriptions. Therefore, we could not project the results to the entire population.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 5 findings and 6 corresponding recommendations. DOC's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

* See glossary at end of report for definition.

PRIOR AUDIT FOLLOW-UP

Following is the status of the reported findings from our March 2011 performance audit of Pharmaceutical Costs, Department of Corrections (471-0325-09L):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Prescribing of High-Cost Atypical Antipsychotic Medications	Complied	Not applicable
2a	Process to Compile Data on Discarded or Returned Medications	Complied	Not applicable
2b	Implementation of Procedures to Limit Discarded Medications	Complied	Not applicable
2c	Understanding of When to Return Medications for Credit or Proper Disposal	Complied	Not applicable
2d	Process to Reconcile Returned Medications With Contractor Invoices	Rewritten*	4
2e	Contract Language Related to Returned Medications and Denial of Billing Credit	Complied	Not applicable
3	Controls Over the Medication Refill Process	Complied	Not applicable
4a	Nonformulary Prescription Approval Documentation	Rewritten	5
4b	Nonformulary Prescription Independent Approval	Complied	Not applicable
4c	Nonformulary Prescription Justification	Complied	Not applicable
4d	Nonformulary Prescription Periodic Review	Complied	Not applicable
5	Controls to Prevent Duplicate Medication Orders	Complied	Not applicable
6	Prisoners' Purchase of Over-the-Counter Medications	No longer applicable.	
7	Verification of Pharmaceutical Rebates	Rewritten	4

* See glossary at end of report for definition.

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
8	Pharmaceutical Billing Verification Process	Rewritten	4
9	Actual Acquisition Cost Verification Process	Rewritten	4
10a	Inventory of Restricted Medications	Rewritten	3
10b	Administration of Restricted Medications	Complied	Not applicable
10c	Controls Over Receipt of Restricted Medications	Rewritten	1
11a	Segregation of Duties When Preparing Medications for Return	Rewritten	3
11b	Controls Over On-Site Disposal of Non-Controlled Substance Medications	No longer applicable.	
11c	Rendering Discarded Medications Unusable	No longer applicable.	
11d	Transferred Medications	No longer applicable.	
12	Stock Pharmaceuticals	No longer applicable.	
13a	Limiting Access to Controlled Substance Medications	Complied	Not applicable
13b	Unsecured Storage of Controlled Substance Medications	Complied	Not applicable
13c	Master Index of Controlled Substance Medication Perpetual Inventory	Complied	Not applicable
13d	Shift Change Counts of Controlled Substance Medications	Rewritten	1
13e	Perpetual Inventory of Controlled Substance Medications	Complied	Not applicable
13f	Proper Labeling of Controlled Substance Medications	Complied	Not applicable

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
14a	Medication Box - Use of Seals and Logs	Rewritten	2
14b	Medication Box - Secured Area	Complied	Not applicable
14c	Medication Box - Miscellaneous Controls	Complied	Not applicable
14d	Medication Box - Accurate Inventory	Rewritten	2

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information related to pharmaceutical costs presented as Exhibits #1 through #4. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

actual acquisition cost	The price at which the contractor purchases pharmaceuticals from the drug manufacturer/wholesaler.
administer	The act of giving a dose or doses of medication via the appropriate route to a specific prisoner.
assistant chief medical officer	A physician manager who serves as an assistant to the chief medical officer. This position covers a specific geographic area of assigned facilities and makes determinations on off-formulary requests or off-guideline requests and provides input on special cases.
atypical antipsychotic medication	Newer antipsychotics, most of which were approved in the 1990s. They may also be called second generation antipsychotics. They are used in the treatment of schizophrenia and other psychoses and work on a number of different receptors, including serotonin, dopamine, adrenergic, cholinergic (muscarinic), and histamine receptors. They are usually preferred over older-type antipsychotics (also called first generation antipsychotics or typical antipsychotics) because they are less likely to produce extrapyramidal side effects (these are drug-induced movement disorders and include dystonia, Parkinson's-like symptoms, restlessness, rigidity, tardive dyskinesia, tremors, and other unwanted movements).
BHCS	Bureau of Health Care Services.
blister card	Unit dose packaging for pharmaceutical tablets, capsules, or lozenges consisting of a transparent, molded piece of plastic sealed to a sheet of cardboard. Also referred to as a "blister pack."
COMS	Corrections Offender Management System.
controlled substance	A drug or other substance, or immediate precursor, included in Schedule I, II, III, IV, or V of the federal Controlled Substances Act (i.e., Title 21, Section 801, et seq., of the <i>United States Code</i> , which controls the manufacture, distribution, and dispensing of controlled substances).
DDB	dentist dispensing box.

dispense	To issue one or more doses of a drug in a suitable container appropriately labeled, usually by a pharmacist, but sometimes by a physician, a dentist, or a delegated registered nurse (e.g., in the use of the PDB, EDB, or DDB).
DOC	Department of Corrections.
EDB	emergency drug box.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
formulary	The book of prescription drugs and their uses. The book includes generic prescription drugs approved by DOC for use and the brand name equivalents, as applicable, with instructions on the process for approving the use of brand name equivalents or nonformulary prescription drugs.
HIV	human immunodeficiency virus.
HUM	health unit manager.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
keep-on-person medication	Non-restricted medication that has been determined to be appropriate for the prisoner to possess.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.

nonformulary drug	Medication that is not included on the listing of prescription drugs approved for use.
over-the-counter medication	Medication that does not require a prescription by state or federal law or regulation.
PDB	physician dispensing box.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
psychotropic drug	A drug that acts primarily upon the central nervous system where it alters brain function, resulting in changes in perception, mood, consciousness, cognition, and behavior. Common types of psychotropic drugs include antidepressants, anti-anxiety agents, antipsychotics, and mood stabilizers.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
restricted medication	Medication that has been prescribed to a specific prisoner and identified by DOC's BHCS as a medication that is required to be administered by a nurse or that the prescriber or registered nurse has determined is unsafe for the prisoner to possess.
rewritten	The recurrence of similar conditions reported in a prior audit in combination with current conditions that warrant the prior audit recommendation to be revised for the circumstances.



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