DEPARTMENT OF ELDERLY AFFAIRS
RHODE ISLAND PHARMACEUTICAL ASSISTANCE TO THE ELDERLY
PERFORMANCE AUDIT
23-MONTH PERIOD ENDED MAY 31, 2000

DEPARTMENT OF ADMINISTRATION
BUREAU OF AUDITS
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Administration
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Department of Elderly Affairs

RHODE ISLAND PHARMACEUTICAL ASSISTANCE TO THE ELDERLY

Performance Audit

23-Month Period Ended May 31, 2000

EXECUTIVE SUMMARY

The Department of Elderly Affairs (DEA) needs to ensure that the Rhode Island Pharmaceutical Assistance to the Elderly (RIPAE) program develops and implements a procedural manual which incorporates timely reviews and reconciliations of administrative contractor invoices, review of the pharmaceutical drug manufacturers rebates, as well as pending RIPAE membership applications. A recertification of the RIPAE membership needs to be performed. Also, formal policies and procedures for updating and maintaining RIPAE membership should be established as well as a records management/file retention system.

Management of the RIPAE program should monitor the terms of the administrative contractor's technical proposal and review the contractors suggested enhancements to determine the possible benefits to the program.

Since our review legislation has been enacted to expand the RIPAE program. The program will continue to pay 60 percent of the cost of covered drugs for individuals and married couples with incomes up to $15,932 and $19,916, respectively. The expanded program will pay 30 percent of the cost of covered drugs for individuals with income up to $19,999 and married couples with income up to $24,999. It will pay 15 percent for individuals with incomes between $20,000 and $34,999 and married couples with incomes between $25,000 and $39,000.

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December 18, 2000

Ms. Barbara A. Rayner, Director
Department of Elderly Affairs
160 Pine Street
Providence, RI 02903

Dear Ms. Rayner:

We have completed our performance audit of the Department of Elderly Affairs, Pharmaceutical Assistance to the Elderly Program for the 23-month period ended May 31, 2000. Our audit was conducted in accordance with Sections 35-7-3 and 35-7-4 of the R. I. General Laws.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of the report. Management's responses to our audit recommendations have also been included in our report.

In accordance with Section 35-7-4 of the General Laws, we will review the status of the Department of Elderly Affairs' corrective action plan within 6 months from the date of issue of this report.

Sincerely,

Stephen M. Cooper

Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pb

DEPARTMENT OF ELDERLY AFFAIRS

RHODE ISLAND PHARMACEUTICAL ASSISTANCE TO THE ELDERLY

PERFORMANCE AUDIT

23-MONTH PERIOD ENDED MAY 31, 2000

INTRODUCTION

Objectives, Scope, and Methodology

We conducted a performance audit of the Department of Elderly Affairs, Rhode Island Pharmaceutical Assistance to the Elderly program for the 23-month period ended May 31, 2000. Our objectives were to determine if the program complied with state laws and regulations and was acquiring, protecting, and using its resources in an economical and efficient manner.

Our audit was made in accordance with the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors. In conducting our audit, we evaluated the practices and procedures used by the program in administering its operations and financial matters. Our purpose was to identify practices and procedures that could be improved or made more efficient. We also evaluated program management and third party contracts as they apply to delegate agencies, participating pharmacies, administrative contractor, manufacturers rebate agreement and consultants. To achieve our objectives, we reviewed relevant policies and procedures, state laws and regulations, interviewed responsible personnel, and performed tests of the accounting records and such auditing procedures, as we considered necessary in the circumstances.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Section 35-7-4 (c) of the R.I. General Laws requires the auditee to respond in writing within 60 days to all recommendations made in the report. Management's response to our audit findings and recommendations were submitted on December 8, 2000 and are included in our report.

Background

The Department of Elderly Affairs (DEA) was established in 1977 to be the principal agency to plan, develop, and implement innovative programs to insure the dignity and independence of the elderly. The Division of Community Services administers various programs one of which includes the Rhode Island Pharmaceutical Assistance to the Elderly (RIPAE) program. The RIPAE program accounted for approximately 35 percent of the Department's budget for fiscal year 2000.

The RIPAE program began in October 1985 through an enabling act that became Chapter 42-66-2 of the R.I. General Laws. This legislation created a unique prescription drug assistance program for Rhode Island residents who are 65 or older and meet income guidelines. Under this program, RIPAE members pay 40 percent of the cost of certain prescription drugs and the program pays the remaining 60 percent. The medications approved are limited to certain illnesses; however, the types of illnesses and the medications approved for treatment are expanded from time to time by the state legislature.

As of March 1, 1992 the legislation was amended to incorporate a pharmaceutical manufacturer's drug rebate component. DEA is authorized to enter into agreements with individual pharmaceutical manufacturers under which the department receives a rebate equal to the basic rebate supplied by the manufacturer under Section 1927 of Title XIX of the Social Security Act for every eligible prescription drug dispenses under the program.

In 1998 the legislation was further amended to require that Medicare managed care insurance plans within the state coordinate benefits with DEA to ensure RIPAE eligible client's with Medicare managed care insurance can receive state benefits after their coverage limits are exhausted. Currently, three local medigap plans with large senior enrollee populations participate in this daily electronic eligibility match system. The implementation of this plan enabled Rhode Island elders to choose their Medicare plan without fear that they would lose access to RIPAE benefits. At the same time this plan has resulted in reduced RIPAE costs.

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FINDINGS AND RECOMMENDATIONS

Program Management

The Rhode Island Pharmaceutical Assistance to the Elderly (RIPAE) program began in 1985 and, according to department records as of December 1998, had 29,766 active members with 17,109 members filling prescriptions. To become a RIPAE participant, an applicant must visit The Department of Elderly Affairs (DEA) or one of their authorized delegate agencies to submit an application for eligibility determination. We attempted to verify the enrollment data as reported by the DEA to ensure that the RIPAE members that were selected for our review qualified for RIPAE benefits. During our review we noted that the original certifying records were not always retained by DEA and that age, residency, and income documentation was not always attached to the applications. As a result, we were unable to verify the eligibility of those participants selected for review. We did note, however, that the current practice of the DEA is to retain all RIPAE member applications and ensure that certifying documentation is attached to the application.

Section V of the Rules and Regulations Governing the RIPAE program entitled "Duration of Eligibility" indicated that members of the program shall remain eligible for a period determined by DEA or until the following:

- Participant is no longer a full-time resident of the state;
- Participant is not eligible for assistance until the participant's other prescription drug coverage is exhausted during a benefit year; or
- DEA conducts a certification and determines participant to be ineligible.

Our review disclosed that the last recertification was performed in 1989. If recertifications are not performed on a scheduled basis and records are not updated, the program's statistics could be incorrectly reported and ineligible individuals could receive benefits.

Recommendations

1. Establish formal policies and procedures including but not limited to the maintenance of RIPAE membership database and supporting documentation.

   Management's Response:
   Accepted.

2. Perform periodic recertifications of members of the RIPAE program

   Management's Response:
   Partially accepted.

Eligibility Determination

In accordance with Section 42-66.2 of the R.I. General Laws, the DEA makes eligibility determinations for the program with the assistance of community senior citizen support organizations. The DEA enters into contract agreements with various senior citizen organizations for the purpose of processing membership applications for the RIPAE program. The delegate agencies collect program application information from the various applicants, attach all necessary documentation to applications, and forward the information to the DEA. The application is then reviewed at the DEA and, if approved, the individual becomes a RIPAE member.

Our review of applications received from delegate agencies disclosed that the DEA does not have a policy of routinely reviewing pending applications. A review of the pending file would ensure that all pending membership applications would have a timely and accurate assessment of eligibility and claims processing.

Recommendation

3. Establish formal policies and procedures for a regular review of pending RIPAE membership applications.

   Management's Response:
   Accepted.

Administrative Contractor

The DEA administers the RIPAE program with the assistance of an administrative contractor capable of delivering the program through electronic point of sale pharmacy claims administration. Participating pharmacies, pursuant to their contract with the administrative contractor, purchase the drugs from the pharmaceutical manufacturers and agree to sell the drugs to participating RIPAE client's at a negotiated price. The price is referred to as the "Average Wholesale Price" (AWP), less 13% discount, plus a dispensing fee of $2.75 for most prescriptions. The AWP is not what one would consider a "wholesale" price but is an agreed upon formulary commonly used in the industry to negotiate the prices of drugs. A RIPAE member will deliver a prescription to a participating pharmacy and pay 40 percent of the drug costs. The contractor submits monthly billings to the DEA and is reimbursed 60 percent of the cost of each prescription and an administrative fee of $.44 per prescription processing and $.45 for RIPAE membership cards.

During our review we noted that although the contractor provides supporting documentation for the invoices, there is no procedure adopted by the DEA to ensure the accuracy or validity of the invoice.

Recommendation

4. Develop policies and procedures to verify the accuracy and integrity of the contractor's invoices.

Management's Response:

Accepted.

Drug Utilization Review (DUR)

In response to DEA's Request for Proposal (RFP) for the Plan Administration Contract, the selected vendor had stated in their Technical Proposal that as part of the Drug Utilization Review (DUR) requested in the RFP that they would perform pharmacy level audits to ensure the validity of the prescriptions and dispensing limitations, that signature logs are maintained, pricing is accurate, and billing is validated. In addition, the RFP specifically required that the contractor report on DUR's on a quarterly basis. Our review disclosed that DEA is not monitoring the proposed pharmacy level audits to ensure the DUR reports are filed with the DEA and reviewed on a timely basis.

Recommendation

5. Ensure the administrative contractor files quarterly DUR reports.

Management's Response:

Accepted.

The administrative contractor, at the request of the DEA, included several program enhancements in their technical proposal. The contractor suggested the implementation of a mandatory generic substitution program to lower overall program costs for patients, providers, and the state. They also suggested the development of a program to address compliance issues among older Americans resulting in overall cost savings from decreased physicians visits, hospitalizations, adverse effects from side effects, and other related benefits. Our review disclosed that there was no formal review by DEA of the suggested enhancements. In view of the benefits proposed by the contractor in their technical proposal, the suggested enhancements warrant a formal review by the DEA.

Recommendation

6. Review administrative contractor's suggested enhancements to determine the feasibility and benefits of implementation.

Management's Response:

Accepted.

Pharmaceutical Manufacturer's Rebate Agreement

The DEA has entered into rebate contracts with participating pharmaceutical manufacturers for each prescription filled under the RIPAE program. The rebate is based on the number of units filled in each prescription multiplied by an applicable unit price supplied under the Federal Rebate Agreement with the U. S. Department of Health and Human Services. The units are invoiced quarterly from the contractor to the pharmaceutical manufacturer, and the manufacturer then remits the rebate check to the DEA along with computational documentation. During fiscal year 1999 the pharmaceutical rebate totaled $1,824,332 which was deposited into the State of Rhode Island's General Fund.

Our review of procedures for processing manufacturer's rebates disclosed weaknesses in internal controls over the receipt, processing, and follow-up of pharmaceutical rebate checks. The fiscal unit is not restrictively endorsing or date stamping documents as received nor are receipts deposited within 7 business days as required by Section 11-28-1 of the R. I. General Laws. The DEA does not have a procedure in place for the follow-up and assessment of interest on late rebate payments.

Recommendation

7. Management should ensure strict fiscal controls over the depositing, processing, follow-up, and assessment of rebate payments.

Management's Response:

Accepted.

Consultants

The DEA contracted the services of a consultant to aid in the redrafting and updating of a Request for Proposal for the RIPAE program. Our review disclosed that the contract has been performed as specified; however, we noted that adequate documentation of all promised deliverables is not always secured. We noted that although the billing documents conformed to the contractual agreement, namely, rate per hour, we were unable to determine exactly what work was performed or referenced to a specific deliverable.

Recommendation

8. Documentation should be obtained for all promised deliverables under contract with consultants.

Management's Response:

Accepted.

Interdepartmental Memo

Date: 12/8/00

To: Stephen M. Cooper
Chief, Bureau of Audits

Cc: Debra A. Capuano

From: Barbara A Rayner, Director
Department of Elderly Affairs

RE: Report for RIPAE Program

RECOMMENDATION # 1 Establish formal policies and procedures including but not limited to the maintenance of RIPAE membership database and supporting documentation.

RESPONSE Accepted
DEA has established an on-line connection with the MIM database.

RECOMMENDATION # 2 Perform periodic recertifications of members of the RIPAE program

RESPONSE Partially Accepted
DEA is evaluating this finding

RECOMMENDATION # 3 Establish formal policies and procedures for a regular review of pending RIPAE membership applications.

Response RESPONSE Accepted
DEA has established a computerized pending file as well as a paper pending file.

RECOMMENDATION # 4 Develop policies and procedures to verify the accuracy and integrity of the contractor's invoices.

RESPONSE Accepted
DEA receives a disk with detail level information verifying the contractor's invoice. When received this information is loaded onto the DEA network and is available to both the RIPAE Program Manager and the Chief Business Officer in the Financial Management unit.

RECOMMENDATION # 5 Ensure the administrative contractor files quarterly DUR reports.

RESPONSE Accepted
Previously MIM filed the quarterly reports on an annual basis. This practice has been modified, the quarterly reports will now be filed quarterly.

RECOMMENDATION # 6 Review administrative contractor's suggested enhancements to determine the feasibility and benefits of implementation.

RESPONSE Accepted
During the 1996 RFP the then Department Director opted not to implement, due to funding constraints.

RECOMMENDATION # 7 Management should ensure strict fiscal controls over the depositing, processing, follow-up and assessment of rebate payments.

RESPONSE Accepted
The bank deposit process has now been enhanced to twice weekly deposits.
The process regarding any discrepancies with regard to rebate payments is for the clerk to contact the appropriate vendor, make a note of what occurred and follow-up within a reasonable time frame with the vendor if a delay occurs.

RECOMMENDATION # 8 Documentation should be obtained for all promised deliverables under contract with consultants.

RESPONSE Accepted
The procedures have been modified so that a contractor's bill will delineate the price per deliverable against deliverables being billed.