



## Memorandum

Date DEC -4 1996  
Deputy Inspector General  
From for Audit Services

Subject Office of Inspector General's Partnership Plan-Drug Delivery System for Montana's Medicaid Program (A-06-96-OO072)

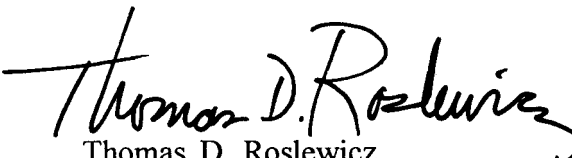
10 Bruce C. Vladeck  
Administrator  
Health Care Financing Administration

We are transmitting for your information and use, the attached final report on an audit of the Drug Delivery System for Montana's Medicaid Program for State Fiscal Years (FY) 1994-and 1995. This review was conducted by the Montana Legislative Auditor (MLA). The objectives of the review were to (1) identify the Department of Public Health and Human Services' (Department) procedures to achieve cost savings in the acquisition and delivery of drugs and (2) determine if a mail order delivery system would be more cost effective.

This work was conducted as part of our partnership efforts with State Auditors to expand audit coverage of the Medicaid program. As part of the review, the Office of Audit Services assisted the MLA by providing technical support through the Medicaid Partnership Plan. In addition, we have performed sufficient work to satisfy ourselves that the attached MLA audit report can be relied upon and used by the Health Care Financing Administration in meeting its program oversight responsibilities.

The MLA determined that the Department had adequate procedures in place to contain costs in the acquisition and delivery of drugs. The Department averted approximately \$980,000 in annual program expenses at annual costs of approximately \$590,000. In addition, the Department has collected over \$5 million in manufacturers rebates in FY 1994 and 1995. The MLA concluded that another type of drug delivery system does not appear to be more cost effective than the current system. Since the MLA had no recommendations for corrective actions, an attachment with a listing of the coded recommendations will not be prepared.

We plan to share this report with other States to encourage their participation in our partnership efforts. If you have any questions about this review, please let me know or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104.

  
Thomas D. Roslewicz

Attachment

# Legislative Audit Division

State of Montana



Report to the Legislature

September 1996

## Limited Scope Review

Medicaid Partnership Plan

# Drug Delivery System for Montana Medicaid Program

Department of Public Health & Human Services

This report discusses department procedures for averting costs in the acquisition and delivery of drugs.

Direct comments/inquiries to:  
L. Legislative Audit Division  
R. Room 135 State Capitol  
P.O. Box 201704  
Helena MT 59620-1705

96P-12

## **LIMITED SCOPE REVIEW**

**This limited** scope study was a joint project performed by **performance** audit staff to look for cost savings opportunities in the state's Medicaid system. **This review also** utilized technical support from federal audit personnel made available through the Medicaid Partnership Plan.

Legislative Audit Division  
Room 135 State Capitol  
PO Box 201705  
Helena MT 59620-1705

### **MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE**

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**Representative B o b Keenan**  
**Representative Robert Pavlovich**  
**Representative Bruce Simon**

**Members of the audit staff involved in this audit were Angie Grove and Jim Pellegrini.**

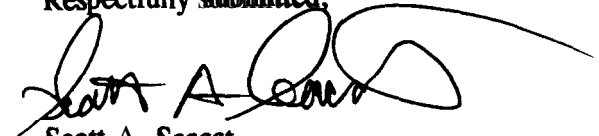
June 1996

The Legislative Audit Committee  
of the Montana State Legislature:

This is our limited **scope** review of **the Department** of **Public Health and Human Services** drug delivery system for the **Medicaid** program. **The** report identifies steps the department **has** taken to contain costs in this program. **The department's** written response is included beginning on page 11.

I would like **to** thank the department **director and his staff, as well as the staff** at the Employees Benefit Bureau at **the Department** of Administration, for their assistance and cooperation during our review.

Respectfully submitted,



Scott A. Seacat  
Legislative Auditor

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### Appointed and Administrative Officials

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**Department of Public  
Health & Human  
Services**

Peter Blouke, Director  
Nancy Ellery, Administrator, Medicaid Services Division  
MaryDalton, Chief, Primary Care Bureau

**List of Figures**

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**Figure 1**

Tots! Costs Comparison  
Medicaid vs. Montana Employee Benefit Plan . . . . . 8

# Drug Delivery System for Montana Medicaid Program

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## Introduction

We performed a limited scope review of Montana's Medicaid delivery system for the pharmacy program. The Medicaid program is administered by the Department of Public Health and Human Services.

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## Objectives

Our primary objectives were to:

1. Identify the department's procedures to achieve cost savings for in the acquisition and delivery of drugs.
2. Determine if a mail order delivery system would be more cost effective.

We conducted this review in cooperation with federal auditors who provided technical support to us under the Medicaid Partnership Plan. The Partnership Plan outlines suggested federal and state joint audits of the Medicaid program which have saved money in other states.

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## scope

The scope of this review was limited to reviewing the department's Medicaid pharmacy program expenditures and the procedures used to deliver drugs to recipients. We compared the delivery system used for the current Medicaid pharmacy program to other state pharmacy drug delivery systems. We did not review all expenditures for pharmacy supplies, nor did we review transactions to the extent necessary to identify unnecessary costs or methods used by the department to acquire drugs. We did not examine the efficiency of current procedures. Our review was conducted in accordance with applicable Government Audit Standards.

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## Background

The Medicaid program, administered under federal regulations, serves persons who qualify for financial and medical assistance. This program is administered by the Medicaid Services Bureau within the Department of Public Health and Human Services. The program mission is to ensure that Montana's low-income residents

## **Drug Delivery System for Montana Medicaid Program**

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have access to medical care at a **cost** which is equitable to both the provider of the service and to the taxpayer.

Program funding includes general fund, **state** special revenue, and federal funds. **State** special revenue is property tax revenue **from** the 12 state-assumed counties, nursing home bed taxes, **and** donations. **County funds** supply part of the state match for primary care Medicaid 'benefits.

Program expenditures for the pharmacy program were approximately \$25 million **in** state **fiscal** year 1993-94 and \$27 million in state fiscal year 1994-95. Drug benefits are one of the fastest growing components of primary medical care. Reimbursement for covered drugs under the **Montana Medicaid Program** is the lesser of

- **The** providers usual and customary charge.
- The estimated acquisition cost (plus a dispensing fee).
- A maximum allowable amount based on a defined cost limit. (plus a dispensing fee.)

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### Current Delivery System

The current delivery system used by **Medicaid** **operates** through local pharmacies across the state. To address the rising costs in this area, the department **has** developed several different programs with various controls **in place** to avert **costs**. **These** include Point of **Sale** System, Due Care Program, Drug **Formulary** Program, and the **Manufacturer** Rebates Program.

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### Point, of Sale System

**The** Point of Sale System is an on-line computer system for **Medicaid** pharmacy providers which provides timely Medicaid eligibility confirmation, notifies if prior authorization is required and provides an electronic system to submit claims. This program is administered through a contract with a private company.

**The** point of sale system promotes the use of generic **or** cheaper brand name drugs by **indicating** price differences on-line as a prescription is entered. In some cases, generics are mandated and the system also **communicates** this. Potential **drug** interactions are also noted. A large majority of the pharmacies **in** Montana currently subscribe to this system. On-line edits **within** the system provide



## Drug Delivery System for Montana Medicaid Program

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prospective drug utilization reviews to promote program compliance.

**The** department pays **29c** per prescription **for** this service. **The** department expended approximately \$290,000 for this program in the past year. Drug **costs** were contained by various prescription changes identified through the program. For example, 628 prescriptions were reversed due to drug interaction alerts highlighted. Another 1,711 prescriptions were reversed due to excessive duration alerts. Projected reduction in prescription costs were \$308,701 in calendar year 1995.

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### Due Care Program

The purpose of **this** program is **to identify** patient profiles which demonstrate a potential for **health** risks due to prescribed drugs. Noted trends or problem areas are then communicated to health care providers to promote more informed decision making. Areas tracked may include drug **conflicts**, underuse or overuse of medications, **likelihood** of adverse outcomes, and relative risk of hospitalization. **this** program is provided jointly by two contracted entities: a peer-review organization and a pharmaceutical care and research group. Contract amounts for a two year period are \$317,265 and \$200,456, respectively.

Program outcome information is provided to the Due Care Board. (This board also serves as the Medicaid **Formulary** Oversight Committee, which is discussed later in this report.) **the** Due Care Board includes three pharmacists, three physicians, and one additional pharmacist who **serves** as a liaison between the board, the department, and industry. **The** board functions as an advisory group to the department. Approximately 250 recipient profiles are reviewed each month by the board. Six months after review, each profile is **re-evaluated** and an actual cost savings is computed for each case. Based on reviews completed in federal fiscal year 1994, the department saved \$270,053 **in** program **costs**.

## **Drug Delivery System for Montana Medicaid Program**

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### **Drug Formulary Program**

A **formulary** is a listing of products eligible for coverage under a particular reimbursement program. Prior to the application of the Montana Medicaid **formulary**, the **formulary** for Montana was considered open. Very few products were excluded or were limited in coverage. **Formularies** are established for various reasons, including to define **coverage for** those drugs which provide therapeutically sound treatment while maintaining costs. An efficiently managed **formulary** is a method for reducing Medicaid pharmacy program costs.

The University of **Montana - Missoula**, School of Pharmacy and **Allied Health Sciences**, perform research on individual drugs and therapeutic classes of drugs to recommend inclusion or exclusion from the Montana Medicaid **formulary**. **The** department contracted with the University for the amount of \$78,522 for this service. The School bases its determinations on a drug's labeling or related medical literature. Drugs recommended for exclusion are found to have no significant advantage in terms of safety or effectiveness over other drugs evaluated and recommended for inclusion in the Montana Medicaid **formulary**.

**The Medicaid Formulary Oversight Committee** is responsible for reviewing recommendations made by the University and submitting final recommendations to the department for inclusion or exclusion in the Montana Medicaid **formulary**. As noted on page 3, this committee includes pharmacists and physicians. Committee **costs** are approximately **\$5,000** annually. This **committee** is responsible for ensuring compliance with federal mandates. Final recommendations are incorporated into the Point of Sale system to ensure notification to participating pharmacies and promote program compliance. Due to the additional controls and compliance reviews offered through the use of this program, the department estimated expenditures were reduced by approximately \$400,000 annually. This savings is primarily from review of previous and current **expenditures** for those high cost drugs which now require prior authorization before submitting claims for payment. For example, a 50 percent reduction in expenditures for **Tordal**, an analgesic drug, was **noted** between fiscal years 1994 and 1995 after prior authorization was mandated.

## Drug Delivery System for Montana Medicaid Program

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### **Summary**

Based on department projections and **information** provided by program contractors, potential program expenses of approximately \$980,000 were averted for the \$27 million Medicaid pharmacy program. Projected **costs** averted by each program include:

Point of Sale Savings . . . . .	\$308.701
Due Care Savings . . . . .	270.053
<b>Formulary Savings . . . . .</b>	<b>400.000</b>

The total annual contract costs for **these** cost containment systems are \$590,068.

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**Conclusion: Department Procedures have Contained costs**

*Department procedures are in place to contain costs in the acquisition and delivery of drugs.*

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### other **Considerations**

There are other factors which cannot be as readily measured; such as the differences in the type of population served and the need for accessibility for emergency and non-maintenance drugs. Accessibility and direct patient counseling are **issues** which impact the quality of service provided to Medicaid recipients. Outcomes such as keeping recipients out of the hospital or preventing a doctor visit are other areas which cannot be clearly quantified. Interviews with the Board of Pharmacy, industry officials, and pharmacy providers have indicated the current Medicaid delivery system ensure a quality delivery system **and in the** long run has more cost effective results.

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### Manufacturer **Rebates**

In addition **to** department cost containment measures, federal law established the Medicaid prescription drug rebate program in 1990. The purpose of the drug rebate program is to ensure Medicaid is charged a fair price for prescription drugs. It is common practice among drug manufacturers to give a discount to large purchasers of prescription drugs, such as hospitals. **Since** Medicaid is also a **large** purchaser of prescription drugs, federal laws mandated rebate agreements from drug **manufacturers** for states to receive cash

## Drug Delivery System for Montana Medicaid Program

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**rebates** for the cost of drugs dispensed to Medicaid recipients. This requirement went into effect January 1, 1991.

**Only** those drugs produced by manufacturers who have signed agreements with the federal Department of Health and Human Services are covered by Montana Medicaid. Paid claims history is used quarterly to invoice pharmacy **manufacturers** for rebates due. **The** department recorded rebates of over \$5 million in each fiscal year **1993-94** and 1994-95.

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### Would Mail Order be a Feasible Delivery Option?

The next step of our review was to compare costs of prescriptions between the Montana Medicaid delivery system and mail order delivery systems used for pharmacy services.

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### Other States Delivery system

The first area reviewed included examining systems utilized by other states to deliver prescription drugs. Using a phone survey, the following questions were posed to Medicaid program in other states:

Does your state reimburse for pharmaceuticals provided by a mail order **pharmacy**?

Do you mandate mail order for any types of drugs, i.e. maintenance medications?

States were also **asked** to provide any policy or guidelines related to mail order contracts and program evaluations completed on these programs. Thirty-eight states responded. Although 61 percent noted their program allows reimbursement for mail order prescription, 100 percent indicated mail order is not mandated.

Two states commented that past **mail** order systems were not completely successful and other delivery options will be considered in the next program year.

New York program officials stated a voluntary mail order prescription program was **initiated** in April 1991 but was terminated in March 1996 **due to the** declining number of recipients

## Drug Delivery System for Montana Medicaid Program

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who took advantage of the program and **lack** of cost savings. They found Medicaid recipients pay the same co-payment regardless of prescription costs; therefore, there is no incentive **for** those recipients to utilize a mail order system. **In** addition, **federal** regulations ensure freedom of choice and restricts state programs from mandating use of one pharmacy without obtaining a **federal** waiver. Overall, most state officials noted a mail order system is not a good delivery system option for Medicaid.

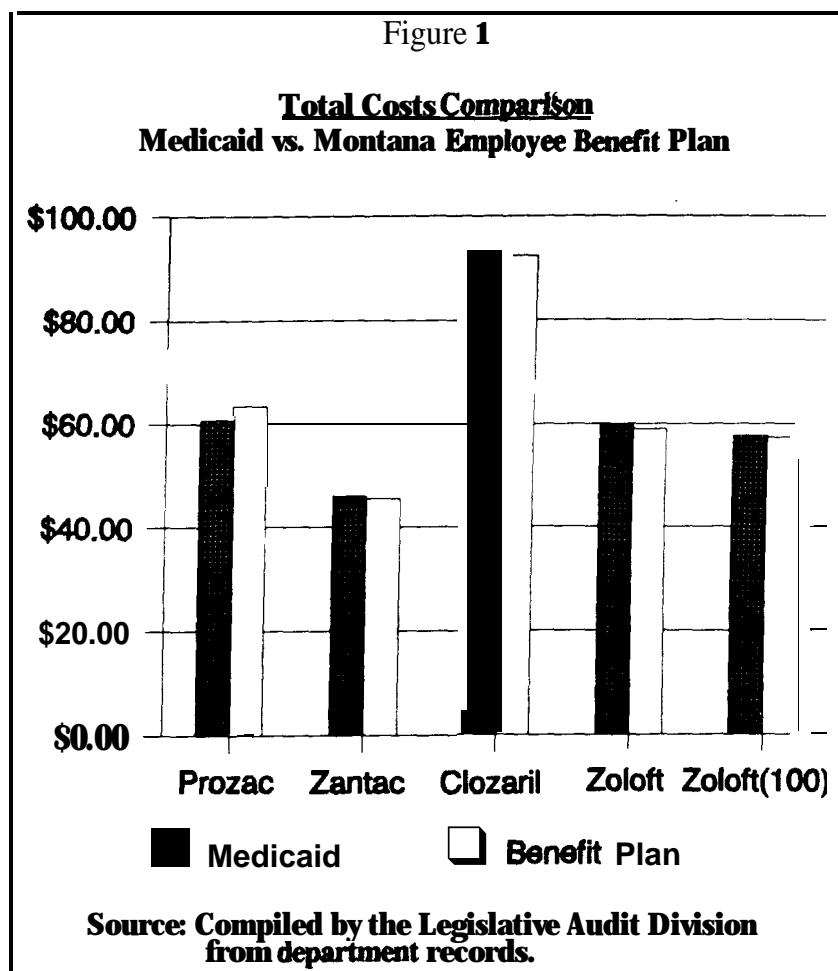
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### Comparison to Other Delivery System

The next step of our review was to compare the current delivery system to other **delivery** systems used in this state. Currently one state program utilizing a mail **order** drug delivery system is the State of Montana Employee Benefits program. This program uses mail order for **its** maintenance drug delivery and a provider network for other drug deliveries. Other programs are in the process of establishing mail order delivery but limited historic data was available.

To compare prescription costs to the Employee Benefits program, we compared five **similar** drug prescriptions to determine if there were significant cost differences between the two programs. We selected drugs included in the top 20 prescriptions and received quotes for **a** prescription amount of 30 pills. The following table notes each prescription cost for both programs.

## Drug Delivery System for Montana Medicaid Program



This cost comparison **includes** dispensing fees, rebates, etc. This data indicates prescription costs between the two programs appear comparable.

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**Conclusion: Feasible but  
not Necessary**

*Based on our audit testing, we conclude another type of drug delivery system does not appear to be more cost effective than the current system.*

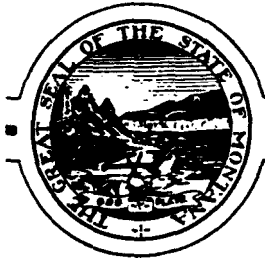
# Agency Response

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DEPARTMENT OF  
PUBLIC HEALTH AND HUMAN SERVICES  
HEALTH POLICY & SERVICES DIVISION



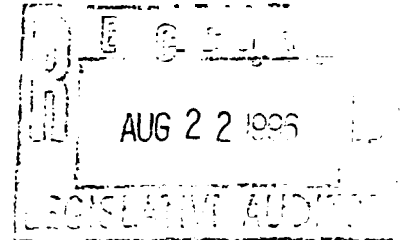
MARC RACICOT  
GOVERNOR

PETER S. BLOUKE, PhD  
DIRECTOR

STATE OF MONTANA

COGSWELL BLDG., 1400 BROADWAY  
PO BOX 202951  
HELENA, MONTANA 59620-2951

August 21, 1996



Jim **Pellegrini**, Deputy Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol Building  
Helena, MT 59601

Subject: Medicaid Transportation Services and Delivery System for Drugs

Dear Mr. **Pellegrini**:

Enclosed are the Department's responses to the recommendations pertaining to the Medicaid delivery **system** for drugs and Medicaid transportation **services**.

The Department concurs with the recommendations. The report and recommendations support the Department's efforts **in** efficiently managing these programs.

Thank you for your review.

Sincerely,

A handwritten signature in cursive script that reads "Michael J. Blouke for".

Peter **Blouke**, Ph.D.  
Director

Enclosures

cc Nancy **Ellery**

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## **DELIVERY SYSTEM FOR DRUGS**

### RECOMMENDATION #1

#### Agency Re

The Department concurs with the conclusion that the procedures currently in place contain costs in the acquisition and delivery of drugs. The Department developed the point of sale **system**, Due Care **Program**, and Drug **Formulary** Program to ensure the safe and cost-effective delivery of drugs to Medicaid recipients. These programs are modified regularly in response to increased understanding of pharmacy products and to changing patterns of use by recipients.

The Department **also concurs with** the finding that the State benefits from the drug rebate program. The Department will continue to pursue manufacturers' rebates aggressively.

### RECOMMENDATION #2

#### Agency Response:

The Department concurs with the conclusion that another type of drug delivery system does not appear to be more cost effective than the current system. The Department will continue to investigate potential cost-saving measures for their effective application to the pharmacy program.