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September 25, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF MENTAL HEALTH – PHARMACY OPERATIONS**

Based on issues noted in our review of procurement in one County department, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations in all County departments. In accordance with the developed plan, we completed a review of the Department of Mental Health's (DMH or Department) compliance with County procurement policies and procedures for pharmaceuticals. We also reviewed how the Department manages its pharmaceutical costs.

When a mental health provider prescribes medication for a DMH client, the provider enters the prescription into DMH's Prescription Authorization Tracking System (PATS). Clients can get their medication at any of the 103 pharmacies that contract with DMH. Contract pharmacy staff use PATS to fill the client's prescription, and get information on the client's third-party coverage, such as Medi-Cal, a federally-funded medical insurance program that covers prescription drugs, or private insurance. They will bill DMH directly if the client does not have third-party coverage. During Fiscal Year (FY) 2011-12, it cost DMH approximately $43.8 million on pharmaceuticals.

Summary of Findings

Our review disclosed that, from September 1, 2007 to June 30, 2008, DMH had paid approximately $4.5 million for prescriptions that should have been billed to Medi-Cal. As a result, the County incurred the pharmaceutical expense that should have been billed to the Medi-Cal Program. In addition, we noted that DMH needs to maximize its

use of free medication programs, and ensure that services/medications are only provided to eligible clients. Upon discovery of these issues, we immediately notified and worked very closely with DMH management to assist them with their corrective actions and DMH also took immediate action to implement the needed changes.

To date, DMH has made significant progress in implementing applicable changes and its management indicated that DMH has saved over $9.6 million in medication costs over the last two years through the recovery of Medi-Cal billable prescriptions and increased client enrollments for free medications.

The following are examples of the issues noted in our review:

- **DMH needs to ensure they do not pay for prescriptions for clients with Medi-Cal coverage.** From September 1, 2007 to June 30, 2008, DMH paid approximately $3.2 million for prescriptions and approximately $1.3 million for prescription refills that should have been billed to Medi-Cal.

  DMH has been paying for prescriptions that should have been billed to Medi-Cal because DMH does not bill Medi-Cal for prescriptions for clients who become eligible after the prescriptions have been filled (retroactive Medi-Cal coverage). In addition, contract pharmacies could not easily determine if clients had Medi-Cal coverage because clients sometimes do not present their Medi-Cal card when filling prescriptions. DMH also needs to update PATS with Medi-Cal coverage information from its primary billing system, and for clients with addresses in adjacent counties.

  DMH's response indicates that they have started to identify and recover inappropriate payments which are retroactively billable to Medi-Cal; advised clinic staff to remind clients to take their Medi-Cal cards to the pharmacy when they fill their prescription; and provided key Medi-Cal client data in PATS to improve the pharmacies' ability to determine if a client has Medi-Cal coverage. DMH also indicated that they are updating PATS using Medi-Cal coverage information from its primary billing system, and have been working with the State to obtain regular access to adjacent counties' data.

- **DMH needs to maximize its use of free-medication programs.** Many pharmaceutical companies have Patient Assistance Programs (PAPs) that provide free medication to qualified indigent patients. We reviewed ten DMH client files where the County paid for medication, and noted seven (70%) of the clients qualified for a PAP, but were not enrolled. In addition, two (20%) of the ten DMH clients reviewed who received County-paid medication were enrolled in a PAP, but the County still paid for these clients' medications.

  DMH's response indicates that they have hired three additional staff to increase the rate of identification and enrollment of eligible clients in PAPs, and implemented a

measure to hold clinic staff responsible for meeting benchmarking goals for eligible client enrollment. In addition, staff obtain weekly updates regarding clients' eligibility and the status of PAP applications, including renewal and termination dates.

- **DMH needs to ensure that PATS will not allow staff to create unauthorized prescriptions.** PATS allows the same staff to create a new client and input a prescription for that client. While we did not identify any inappropriate activity, this issue could allow clinic staff to create a fictitious client/prescription, and obtain County-paid medication from a pharmacy without being detected.

  DMH's response indicates that by the end of calendar year 2013, they will contract with a vendor that would require prescribers, rather than staff, to directly enter prescriptions to ensure prescriptions are authorized and accurate. In the interim, DMH has instructed prescribers to remind clients to take hard copy prescriptions to the pharmacies, and pharmacies to dispense medications only if clients present hard copy prescriptions.

- **DMH needs to implement a policy to verify clients' identity/residence before providing services/medications.** DMH staff do not always obtain valid identification before providing services/medication. This could result in a client receiving excessive medication (e.g., under more than one name, etc.), or in DMH providing non-emergency services to non-County residents.

  DMH's response indicates that they have adopted a policy that establishes acceptable means to positively identify clients before rendering non-emergency services.

- **DMH needs to improve its controls over payments to contract pharmacies.** We noted that pharmacy invoices are not reviewed to ensure prices are correct before approving payment, and a second payment approval is not performed, as required. In addition, the same manager approves price changes in PATS and the PATS invoices for payment, which could allow inappropriate payments to go undetected.

  DMH's response indicates that they have implemented proper separation of duties by having Pharmacy Services, Procurement, and Accounts Payable (A/P) staff systematically review the accuracy of invoiced prices; Pharmacy Services and AP staff randomly verify prices against third-party databases; A/P staff apply the second payment approval; and price changes are verified by the Procurement Unit and payments are approved by the pharmacy director.

The Department also needs to improve controls over medication rebates, donations, and pharmacy recordkeeping functions, such as maintaining central files of prescription payment documents, and retaining and reconciling pharmacy shipping and receiving records.

Details of these and other findings and recommendations are included in Attachment I.

Review of Report

We discussed the results of our review with DMH management. The Department's response (Attachment II) indicates general agreement with our findings and recommendations, and the Department has already implemented most of the recommendations.

As mentioned earlier, upon discovery of the above-mentioned issues, we worked very closely with DMH management to (1) obtain the Department's validation on our methodology for calculating prescription costs that should have been billed to Medi-Cal; (2) assess the Department's plans for recovering payments from pharmacies that could still be billed to Medi-Cal; and (3) clarify the intent of our audit recommendations to assist DMH with their implementation efforts. As a result of these collaborative efforts, and DMH taking immediate corrective actions, its management indicated that DMH has saved over $9.6 million in medication costs over the last two years through the recovery of Medi-Cal billable prescriptions and increased client enrollments for free medications.

In summary, DMH has made significant progress and will continue to fully implement corrective actions that require additional time due to changes affecting various aspects of the Department's pharmacy operations (i.e., information systems, procurement, accounts receivable/payable, etc.).

We thank DMH management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS:TK

Attachments

c: William T Fujioka, Chief Executive Officer
Marvin J. Southard, D.S.W., Director, DMH
John F. Krattli, County Counsel
Audit Committee
Public Information Office

DEPARTMENT OF MENTAL HEALTH
PHARMACY OPERATIONS

Background

The Department of Mental Health (DMH or Department) provides mental health and related services to clients at over 40 DMH-operated clinics and through 240 contract clinics. When a mental health provider prescribes medication for a client, the prescription is entered in DMH's Prescription Authorization Tracking System (PATS). Clients may fill their prescriptions at any of DMH's 103 contract pharmacies.

Contract pharmacy staff use PATS to fill the prescription, and to bill for the medication. The contract pharmacies check PATS to see if the client has third-party coverage (e.g., Medi-Cal, private insurance, etc.). If a client does not have third-party coverage, the pharmacy will use PATS to bill DMH. During Fiscal Year (FY) 2011-12, DMH's pharmaceutical costs totaled approximately $43.8 million. The Department also received approximately $1.5 million in rebates from pharmaceutical companies, and approximately $8.9 million in free medication from pharmaceutical companies' Patient Assistance Programs (PAPs), which provide free medication to qualifying indigent clients.

Scope of Review

We reviewed DMH's Pharmacy operations to determine if the Department was maximizing prescription billings to third-party payers. We also evaluated whether the Department maximized its use of PAPs, controlled pharmaceutical rebates properly, and paid appropriate prices for medication. In addition, we reviewed the Department's compliance with County purchasing and payment policies and procedures for pharmaceuticals.

FINDINGS AND RECOMMENDATIONS

DMH Payments for Prescriptions for Clients with Third-Party Coverage

As noted earlier, contract pharmacies use PATS to fill prescriptions, and determine who should pay for them. If PATS does not indicate that the client has third-party coverage, the pharmacies will bill DMH. We reviewed a sample of 40 clients who received County-paid prescriptions, and noted that 14 (35%) had Medi-Cal coverage, and their prescriptions should have been billed to Medi-Cal.

We then reviewed the prescriptions billed to DMH from September 1, 2007 to June 30, 2008, totaling $29.1 million, and noted that the contract pharmacies had billed DMH approximately $3.2 million (11%) for prescriptions and approximately $1.3 million (4%) for prescription refills, that should have been billed to Medi-Cal. Based on our review, it appears that DMH may have been paying for prescriptions that should have been billed to Medi-Cal for many years. It should be noted that, for a number of reasons (e.g., audit scope, no direct access to Medi-Cal's prescription payment records, etc.), we could not

review whether the contract pharmacies may have also billed Medi-Cal for the same prescriptions they billed to the County (i.e., double billed).

We noted the following issues that may have contributed to DMH paying for prescriptions that should have been billed to Medi-Cal:

- **DMH does not identify and bill for prescriptions that can be billed to Medi-Cal retroactively.** Clients may qualify for Medi-Cal coverage for services that were received between the time they applied for Medi-Cal and the time coverage was approved (retroactive coverage). When a client receives retroactive Medi-Cal coverage, providers have to bill for services that were provided before the coverage was approved. We noted that DMH bills Medi-Cal retroactively for clinic services, but not for prescriptions. Thirteen (33%) of the 40 clients reviewed received $37,414 in prescriptions that should have been billed retroactively to Medi-Cal.

- **PATS is not updated for Medi-Cal coverage information for all clients.** DMH receives monthly updates to PATS of patients with Medi-Cal coverage from the State's Medi-Cal Eligibility Data System (MEDS). The update only includes Medi-Cal coverage information for clients with Los Angeles (L.A.) County addresses in MEDS. However, because the addresses in MEDS may not be current (e.g., a client may have recently moved to the County, etc.), obtaining a MEDS file that contains addresses in adjacent counties would improve the Department's ability to identify Medi-Cal covered clients. It should be noted that the County Department of Health Services (DHS) gets a MEDS file that contains Medi-Cal coverage information for clients with addresses in L.A. and five neighboring counties. Seven (18%) of the 40 DMH clients reviewed did not have an L.A. County address in MEDS.

- **DMH does not use Medi-Cal coverage information from its primary billing system to update PATS.** DMH uses its Integrated System (IS) to bill Medi-Cal for clinic services. When billing for these services, clinic staff can accurately identify Medi-Cal coverage in MEDS by using information from the client's medical chart or from IS (e.g., "Client Identification Number" (CIN), etc.). Clinic staff then update IS for Medi-Cal coverage, as appropriate. However, DMH staff do not use the information in IS to update PATS. DMH should immediately begin using the client Medi-Cal coverage information in IS to update PATS.

- **DMH does not use pharmacy "override" data in PATS.** Contract pharmacy staff can access the State's MEDS website directly to determine if a client has Medi-Cal coverage that is not currently shown in PATS. The pharmacy can then "override" the information in PATS to bill Medi-Cal. However, overrides only apply to a single prescription, and do not update PATS to show the client has Medi-Cal. DMH should consider using pharmacy override transactions to update PATS to indicate that a client has Medi-Cal.

- **DMH does not post client data from Medi-Cal to PATS.** Medi-Cal sends data files to DMH for approved clinic service billings that contain information (e.g., CIN,

Medi-Cal card issue date, and birthday) that can be used to identify Medi-Cal coverage. DMH should post this information to PATS to improve the pharmacies' ability to determine if a client has Medi-Cal.

Recommendations

Department of Mental Health management:

1. **On an on-going basis, identify prescriptions billed to the County that should be retroactively billed to Medi-Cal; instruct pharmacies to retroactively bill Medi-Cal, where appropriate; and recover payments for prescriptions that should have been billed to Medi-Cal.**

2. **Obtain a Medi-Cal Eligibility Data System file of clients with addresses in adjacent counties to identify prescriptions that should be billed to Medi-Cal.**

3. **Use the Medi-Cal coverage information in the Department's Integrated System to update the Prescription Authorization Tracking System.**

4. **Consider using pharmacy override transactions to update the Prescription Authorization Tracking System to identify clients with Medi-Cal, where appropriate.**

5. **Provide pharmacies with key Medi-Cal provided client data (e.g., Client Identification Number, Medi-Cal card issue date, birthday, etc.) in the Prescription Authorization Tracking System to improve the pharmacies' ability to determine if a client has Medi-Cal coverage.**

Improve Procedures for Identifying Medi-Cal Eligible Prescriptions

One way to ensure prescriptions are billed to Medi-Cal is to remind clients to bring their Medi-Cal card when filling a prescription.

Pharmacies are required to bill third-party payers, such as Medi-Cal, before they bill the County. However, the contracts do not specifically require the pharmacies to verify and document (e.g., Medi-Cal website printout) that the client does not have third-party coverage prior to billing the County. DMH also does not monitor to ensure pharmacy staff appropriately verified that clients do not have any third-party coverage before billing the County. Seven (18%) of the 40 clients reviewed had existing Medi-Cal coverage, and received $9,605 in prescriptions that pharmacy staff should have billed to Medi-Cal.

Recommendations

Department of Mental Health management:

6. **Instruct clinic staff to remind clients to present their Medi-Cal card when filling prescriptions.**

7. **Amend pharmacy contracts to require pharmacy staff to verify and document (e.g., Medi-Cal website printout) that a client does not have Medi-Cal or other third-party coverage before billing the County, and monitor for compliance.**

Increase Efforts to Recover Improper Pharmacy Billings

After our review, DMH management implemented a plan to recover payments from pharmacies for prescriptions that should have been billed to Medi-Cal. However, DMH's plan limited the County to recovering payments for prescriptions that could still be billed to Medi-Cal. For example, Medi-Cal will only reimburse a pharmacy 50% for claims that are submitted within seven to nine months, and 25% for claims that are submitted within ten to 12 months after the prescription was filled. Medi-Cal will not reimburse claims submitted after 12 months. As a result, DMH's plan will only partially recover improper payments to pharmacies for prescriptions that were filled within the last 12 months.

DMH should request an exception from Medi-Cal to bill for prescriptions older than 12 months, and for the difference between the full claim amount and the partial amount (i.e., 50%, 25%) that Medi-Cal will reimburse for claims submitted within 12 months. In addition, DMH should work with County Counsel to determine whether the County can recover improper billings from contract pharmacies for prescriptions not reimbursable by Medi-Cal. If Medi-Cal approves the exception and/or County Counsel determines DMH can recover prior billings from the pharmacies, DMH should recover costs that contract pharmacies improperly billed to the County for prior periods, to the extent feasible.

Recommendations

Department of Mental Health management:

8. **Request an extension to bill Medi-Cal for prescriptions older than 12 months, and for the difference between the full claim amount and the partial amount (i.e., 50%, 25%) that Medi-Cal will reimburse for claims submitted within 12 months.**

9. **Work with County Counsel to determine whether the County can recover improper billings from contract pharmacies for prescriptions not reimbursable by Medi-Cal.**

10. **If Medi-Cal approves the exception and/or County Counsel determines the Department of Mental Health can recover prior billings from the pharmacies, recover costs that contract pharmacies improperly billed to the County for prior periods, to the extent feasible.**

Patient Assistance Programs (PAPs)

Some pharmaceutical companies offer PAPs to provide free medication to indigent County clients. DMH has an Indigent Medication Program (IMP) unit to enroll eligible clients in the PAPs. For FY 2011-12, DMH indicated that the IMP saved the County approximately $8.9 million by enrolling DMH clients in PAPs, and helping them obtain free medication that would otherwise have been paid for by the County.

IMP staff screen clients for PAP coverage based on the medication(s) prescribed, and the client's ability to pay. When a client's PAP application is approved, the PAP will send the client's medication to DMH Pharmacy Services. Pharmacy Services staff then send the medication(s) to the contract pharmacy that filled the prescription. Because the PAP replaced the medication that the pharmacy dispensed, the pharmacy should not bill DMH for the prescription.

We reviewed a sample of ten DMH clients, and noted that seven (70%) were eligible for a PAP, but were not enrolled. As a result, from September 1, 2007 to June 30, 2008, DMH paid $24,360 for prescriptions for these patients, when they could have received the medications for free. DMH's failure to identify/enroll patients in the PAPs appears to be due to inadequate screening efforts, and a lack of coordination between IMP and clinic staff.

In addition, two (20%) of the ten clients were enrolled in a PAP, but DMH still paid a total of $4,720 for these clients' medications from September 1, 2007 to June 30, 2008. Because DMH did not maintain adequate records of PAP medications shipped to pharmacies, or adequately reconcile medication shipments to pharmacy billings, we could not determine if DMH actually shipped the clients' medications in these instances. As a result, it appears DMH may have paid pharmacies for medications they received for free from PAPs.

We also noted that one pharmaceutical company dropped a client from their PAP because IMP staff did not provide the required updated eligibility information. As a result, DMH paid $1,084 for this client's medication that would have been covered by the PAP.

Finally, we compared DMH's medication shipment and payment records for one month to determine if DMH double-paid pharmacies (i.e., by both shipping medication to and paying a pharmacy for the same prescription). We noted that DMH paid $2,340 (6% of DMH's PAP shipment for that month) for eight prescriptions when they also sent the PAP medications to the pharmacies.

From September 1, 2007 to June 30, 2008, DMH paid approximately $7.8 million for PAP medications that could have potentially been avoided if DMH had identified and enrolled clients who qualified for the PAPs. While some clients will not meet PAP enrollment requirements, DMH needs to significantly increase its IMP enrollment efforts

to avoid unnecessary payments for medications that PAP enrollees could otherwise obtain for free.

Recommendations

Department of Mental Health management:

11. **Ensure eligible patients are enrolled in Patient Assistance Programs, and that Indigent Medication Program staff update client eligibility information as required.**

12. **Maintain Indigent Medication Program shipment records to pharmacies.**

13. **Reconcile Patient Assistance Program shipments to pharmacy billings to ensure the Department of Mental Health does not pay for Patient Assistance Program enrollees' medications.**

General Purchasing Controls

County purchasing guidelines require departments to obtain approved requisitions before ordering goods and services, and to ensure correct prices are paid. Generally, requisitions and purchase orders each require at least two approvals. However, pharmaceutical purchases are unique in that an "approved purchase order" (i.e., prescription) requires only one approval, by the provider who issued the prescription. As a result, DMH needs to have appropriate controls to ensure medication purchases are properly authorized.

We reviewed DMH's controls over pharmaceutical purchases and noted the following:

Agreement Pricing - Pharmaceuticals

Pharmacy Services staff update PATS for changes in medication prices from DMH's suppliers, and pay the contract pharmacies based on those prices. Pharmacy Services staff do not keep a record of medication price changes. As a result, it is unclear whether DMH paid the correct prices to the contract pharmacies. To ensure the Department pays the correct price for pharmaceuticals, DMH should maintain documentation of price updates to PATS for at least five years.

We also noted that Pharmacy Services staff establish prices that will be paid for prescriptions without consulting DMH's Procurement Unit. Because Procurement staff are responsible for authorizing the specific charges for DMH purchases, Procurement staff should ensure that prescription prices to be paid through PATS are updated correctly.

Recommendations

Department of Mental Health management:

14. **Require staff to maintain documentation of price updates to the Prescription Authorization Tracking System for at least five years.**

15. **Require the Procurement Unit to ensure prescription prices to be paid through the Prescription Authorization Tracking System are updated correctly.**

Prescription Authorizations

We evaluated how prescription authorizations are documented and entered into PATS and noted the following:

- **Lack of Controls to Prevent Unauthorized Prescriptions** – PATS will allow the same clinic staff to create a client record in PATS, and enter a prescription for that client. This could allow clinic staff to create a fictitious client, input a prescription for that client, and receive County-paid medications from a pharmacy; or enter a fictitious prescription for an existing client. We also noted that the providers (i.e., physicians) who issue the prescriptions do not verify the prescription information entered into PATS by clinic staff, which increases the risk of unauthorized/incorrect prescriptions. While we did not note any inappropriate prescription activity, DMH should implement controls to ensure that staff cannot create a client record in PATS, and enter a prescription in PATS for the same client. DMH should also strongly consider requiring providers to enter prescriptions directly into PATS.

  We also noted that the pharmacy contracts do not require pharmacies to keep the prescription form the client receives from the provider. DMH should amend pharmacy contracts to require pharmacies to keep the hard-copy prescription forms (or a facsimile obtained directly from the clinic) to ensure prescriptions are authorized, and monitor pharmacies for compliance.

- **Client Medical Records do not Contain Adequate Authorizations** – We reviewed the clinic charts for 40 clients who received 658 prescriptions, totaling $117,376, from September 1, 2007 to June 30, 2008. DMH could not locate one client's chart. For the remaining 39 charts (639 prescriptions, totaling $111,156), we noted the following:

  - For 334 (52%) of the 639 prescriptions, the client's charts did not include the name/signature of the provider who prescribed the medication.

  - For 45 (7%) of the 639 prescriptions, the charts did not adequately document medication details (e.g., strength, quantity, etc.).

Although we verified the prescriptions were authorized through alternative records (e.g., copies of prescription forms, progress notes, etc.), DMH should ensure that client charts include the issuing provider and details for all prescriptions.

Recommendations

Department of Mental Health management:

16. **Develop procedures and controls to ensure the same staff cannot create a client record in the Prescription Authorization Tracking System, and also enter a prescription for that client.**

17. **Strongly consider requiring all providers to enter prescriptions into the Prescription Authorization Tracking System, or develop alternative controls to ensure the prescriptions are entered correctly.**

18. **Amend pharmacy contracts to require pharmacies to keep hard-copy prescription forms (or facsimile obtained directly from clinic) and monitor pharmacies for compliance.**

19. **Ensure client charts include the issuing provider and details for all prescriptions.**

Verifying Client Identification (ID) and Residency

DMH does not require staff to obtain photo identification from clients, or determine if a client lives in L.A. County before providing services/medications. This could allow a client to receive services/medications under more than one name, and abuse medications. In addition, this could allow non-County residents to receive County-paid services/medications. Where it is not practical (e.g., due to clinical reasons, etc.) to obtain standard client photo ID, staff should document their approval to waive ID and/or residency requirements.

Eleven (28%) of the 40 client charts reviewed did not include any form of client ID, and 14 (35%) of the 40 charts contained questionable IDs (e.g., expired driver licenses, out-of-state driver licenses, IDs with no photo, etc.).

DMH should establish minimum required photo ID standards, including when ID requirements should be waived.

Recommendations

Department of Mental Health management:

20. **Develop identification requirements to receive services, including guidelines for waiving identification requirements.**

21. **Implement procedures requiring staff to verify that a client lives in the County, including guidelines to waive the residency requirement where justified.**

Direct Pharmaceutical Purchases

For FY 2007-08, Pharmacy Services staff purchased approximately $129,000 (or .4% of DMH's pharmaceutical costs) of medication directly from a vendor to distribute to DMH-operated clinics. We noted that the same Pharmacy Services staff who approve the orders, also receive the shipments, and have control over the medication (e.g., disburses inventory to clinics, etc.). County Fiscal Manual (CFM) Section 5.2.3 requires that the same staff should not order and receive goods, and maintain inventory records. DMH should ensure the purchasing and receiving functions are appropriately segregated.

Recommendation

22. **Department of Mental Health management ensure the purchasing and receiving functions are appropriately segregated.**

General Payment Controls

Most of DMH's medication costs are for payments to the contract pharmacies through PATS. For prescriptions that are not processed through PATS, pharmacy staff bill DMH or verbally notify DMH Pharmacy Services to request payment.

County guidelines require at least two approvals to issue payments, one of which must be an employee with no other procurement-related responsibilities. Departments should also ensure that invoiced prices are correct, proper forms (e.g., invoices) are used, and source documents are retained for at least five years.

We evaluated DMH's controls over its pharmaceutical payment approval processes, and noted the following:

Payments for PATS Prescriptions

The Pharmacy Services manager uses a PATS report containing monthly pharmacy billing details to review and approve payments to pharmacies. Once approved, staff electronically send payment requests to the County's electronic Countywide Accounting and Purchasing System (eCAPS) to pay the pharmacies. For FY 2007-08, DMH paid approximately $34 million (or 97.3% of DMH's medication costs) for prescriptions dispensed through PATS.

We reviewed the Department's controls over payments for PATS prescriptions and noted the following:

- **Inadequate payment approvals** – Before approving payments to contract pharmacies, the Pharmacy Services manager reviews the PATS transactions for reasonableness (e.g., quantity of pills dispensed, amount invoiced, etc.), but does not review the prices to ensure they are correct. As noted in the Purchasing Controls section, there is no review to ensure updated PATS prices are correct. We also noted that a second payment approval is not performed, as required. Accounts Payable staff should apply the second payment approval.

- **Lack of separation of duties** – Pharmacy billings to DMH are calculated based on the prices in PATS. The Pharmacy Services manager who approves PATS transactions for payment also approves changes to medication prices in PATS. When the same staff approves price changes and the payments calculated from those prices, inappropriate payments may go undetected.

- **Insufficient supporting documents** – The Pharmacy Services manager emails Accounts Payable staff when PATS invoices are approved. Similarly, Accounts Payable staff email DMH Data Management staff, instructing them to electronically send the "batched" file of payment requests to eCAPS to pay the pharmacies. DMH does not maintain a central file of these payment approval documents.

Recommendations

Department of Mental Health management:

23. **Require all pharmacy payments to be approved by at least two staff, including one from Accounts Payable.**

24. **Ensure Prescription Authorization Tracking System-generated invoices are approved for payment by staff independent of approving price updates to the Prescription Authorization Tracking System.**

25. **Ensure payment approvers verify invoiced prices are correct prior to approving payment.**

26. **Ensure staff maintain central files for payment approval documents for at least five years.**

Payments for "Non-PATS" Prescriptions

In some instances, pharmacies bill DMH by manual invoices because certain prescriptions (i.e., "Psychiatric Diversion Program" or PDP) are issued by facilities (e.g., jails, hospitals, etc.) that do not have access to PATS. In other instances, pharmacy staff did not properly process the prescription in PATS to generate the invoice to DMH. During FY 2007-08, DMH paid approximately $802,000 (2.3% of DMH's pharmaceutical costs) for these non-PATS prescriptions.

We evaluated the Department's controls over non-PATS prescription payments, and noted the following:

- **Invoice Processing** – Pharmacy Services staff often approve payment requests without an invoice, relying instead on various other documents (e.g., copies of prescriptions, prescription labels, etc.). We also noted that when received, some invoices lacked sufficient detail (i.e., medication name, strength, quantity, etc.) and contained incorrect prices. In addition, we noted Pharmacy Services staff revised invoice prices without notifying pharmacies, and pharmacies did not always submit payment requests timely.

- **Verifying PDP prescriptions are authorized** – The Department does not have adequate controls over PDP prescription payments. For example, Pharmacy Services staff did not always obtain/review a copy of the PDP prescription from the contract pharmacy to verify the prescription is authorized before approving payment. In addition, PDP facilities give DMH a monthly list of clients who received PDP prescriptions. However, Pharmacy Services staff did not use these lists to ensure the client received a PDP prescription before approving payment. DMH should require pharmacies to submit copies of PDP prescriptions when billing DMH, and DMH should reconcile the prescriptions and the monthly PDP client list before approving payment.

- **Verifying non-PATS prescriptions were not previously paid** – DMH does not have adequate controls to prevent duplicate payments for non-PATS prescriptions. For example, Pharmacy Services staff indicated that they maintain a log of previously paid non-PATS prescriptions for staff to review before approving payment. However, the log did not include medication name, strength, quantity, etc., and staff did not always update the log. As a result, the log was not useful for staff to determine if a prescription was previously paid.

- **Approving payments in eCAPS** – Accounts Payable staff approve non-PATS prescription payments in eCAPS based on the review performed by Pharmacy Services staff. As a result, County records (e.g., eCAPS, etc.) do not correctly reflect who approved the payments. In addition, Pharmacy Services does not always forward the source documentation (e.g., copies of prescriptions, etc.) to Accounts Payable, and Accounts Payable staff did not know how to evaluate the documentation for appropriateness. Accounts Payable staff should review appropriate documentation prior to approving payments in eCAPS. In addition, DMH did not maintain a central file of these payment approval documents (see Payments for PATS Prescriptions, above), or consistently keep source documents, as required.

- **Timeliness of Payments** – CFM Section 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice. For 11 (65%) of the 17 invoices reviewed, we could not determine if vendors were paid timely because the invoices were not date-stamped upon receipt. In addition, five (83%) of the remaining six

invoices were paid an average of 84 days late. DMH should ensure staff date-stamp invoices upon receipt, and that vendors are paid timely.

Recommendations

Department of Mental Health management:

27. **Develop policies and procedures for pharmacy invoices, including minimum invoice standards (e.g., invoice pricing, client and medication details, billing timeframes, required documentation, etc.).**

28. **Ensure Accounts Payable staff do not approve payment requests in eCAPS based on the review performed by other staff.**

29. **Require Accounts Payable staff to continue to apply at least one approval in eCAPS for non-Prescription Authorization Tracking System prescription payments.**

30. **Ensure staff obtain an appropriate invoice, confirm the prescription is authorized, and was not previously paid before approving non-Prescription Authorization Tracking System prescription payments.**

31. **Consider having Pharmacy Services staff apply one approval in eCAPS for non-Prescription Authorization Tracking System prescription payment requests.**

32. **Require pharmacies to submit payment requests timely.**

33. **Ensure staff date-stamp invoices upon receipt.**

34. **Ensure vendors are paid within 30 days of receiving an invoice.**

Other Pharmacy Controls - Revenue

Pharmaceutical Rebates

DMH receives rebates from pharmaceutical companies based on the total amount the Department pays contract pharmacies for clients' medications. For FY 2011-12, DMH received approximately $1.5 million in rebates.

The Pharmacy Services manager indicated that DMH monitors to ensure they receive the appropriate amount of rebates. However, the Department did not have records showing when the rebates were earned and received. As a result, we could not determine if DMH received all the rebates they should have, and whether DMH recorded the rebates in the correct period in eCAPS. DMH should maintain records

showing rebates earned and received, ensure they receive the correct rebate amounts, and properly record rebates in eCAPS.

Recommendation

35. Department of Mental Health management ensure staff maintain accurate records of rebates earned and received, receive the correct rebates, and properly record rebates in eCAPS.

Clients' Annual Liability

The California Welfare and Institutions Code requires DMH to charge clients for the cost of care and treatment, based on the client's ability to pay. DMH uses the State-required methodology to calculate clients' annual liability. Currently, DMH bills clients for clinic services, but does not try to recover the client's medication costs. DMH should evaluate requiring clients to pay for medication as part of their annual ability to pay liability, and charge clients if practicable.

Recommendation

36. Department of Mental Health management evaluate requiring clients to pay for medication costs as part of their annual ability to pay liability, and charge clients if practicable.

Pharmaceutical Inventory Controls

DMH receives PAP medications for shipment to contract pharmacies, and other medications that are sent to DMH clinics. Pharmacy Services indicated that pharmaceutical inventory as of June 30, 2009, was approximately $1 million, including approximately $600,000 in "excess" PAP medications that DMH was allowed to keep, when PAP-enrollees no longer needed the medication.

CFM Section 5.3.0 requires departments to maintain inventory records, and have annual physical inventories done by staff with no other inventory-related responsibilities (e.g., purchasing, maintaining inventory records, etc.). For the period of our review, DMH did not maintain perpetual inventory records or perform a physical inventory. In addition, the Department did not report fiscal year-end pharmaceutical inventory balances to the Auditor-Controller (A-C), as required.

We also noted that DMH does not have written policies and procedures for using excess PAP medications, or rotating pharmaceutical inventory on a "first in, first out" basis to minimize the risk of medications expiring. DMH should develop written policies and procedures to use excess PAP medications. DMH should also develop written policies and procedures to ensure pharmaceutical inventory is properly rotated.

Recommendations

Department of Mental Health management:

37. **Ensure staff maintain perpetual pharmaceutical inventory records.**

38. **Ensure staff with no other inventory-related responsibilities perform periodic physical inventories of pharmaceuticals, compare the counts to inventory records, and report discrepancies to management.**

39. **Report fiscal year-end pharmaceutical inventory balances to the Auditor-Controller.**

40. **Develop policies and procedures to use excess Patient Assistance Program inventory.**

41. **Develop policies and procedures to rotate pharmaceutical inventory on a "first in, first out" basis.**

Reporting PAP Medications

As previously noted, DMH received approximately $8.9 million in free PAP medications during FY 2011-12. DMH receives the PAP medications on behalf of enrolled clients, which may be considered donations in favor of the County. CFM 2.4.2 requires departments to obtain Board of Supervisors' (Board) approval for donations over $10,000. The CFM also requires departments to record the value of gifts received in their budgets. Because of the unique nature of the PAP (e.g., program qualifications, etc.), DMH should work with the A-C, Chief Executive Office (CEO), County Counsel, and the County's independent auditors to determine if the PAP medications are donations, and if appropriate, obtain Board approval to receive the PAP medications and record the value of free medications received in DMH's budget.

We also noted DMH does not have a contract with any of the four PAPs, or a formal policy for how the Department utilizes the PAPs. DMH should consult with County Counsel and CEO Risk Management to ensure potential legal and risk management issues are considered. DMH should also establish a Board-approved policy defining DMH's role and responsibilities for the PAPs (e.g., procedures for soliciting, receiving, distributing, and accounting for PAP medications, etc.) to ensure PAP activity is adequately disclosed.

Recommendations

Department of Mental Health management:

42. **Work with the Auditor-Controller, Chief Executive Office, County Counsel, and the County's independent auditors to determine if the**

Patient Assistance Program medications are donations, and if appropriate, obtain Board of Supervisors approval to receive Patient Assistance Program medications and record the value of free medications in the Department of Mental Health's budget.

43. **Develop a policy, approved by the Board of Supervisors, County Counsel, and Chief Executive Office Risk Management, defining the Department of Mental Health's role and responsibilities for utilizing the Patient Assistance Programs.**

Management Oversight

Throughout our review, we noted a number of significant deficiencies in DMH's pharmacy operations, including inadequate identification of clients' third-party coverage, and insufficient controls over entering prescriptions/prescription prices into PATS, payment approvals, recordkeeping, and rebate monitoring. It appears these weaknesses may be due in part to insufficient management oversight, in that pharmacy operations did not receive the necessary operational expertise and support from other key DMH functions.

Recommendation

44. **Department of Mental Health management increase the level of management oversight over pharmacy operations.**

Internal Control Certification Program

The A-C developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas and certify that proper controls are in place or note that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in DMH's pharmacy operations should have been identified when DMH completed the ICCP for FYs 2007-08 and 2008-09. However, DMH's certifications indicated that appropriate controls were in place or were not applicable to the Department's operations. DMH does not appear to have considered pharmacy operations when completing the ICCP.

Recommendation

45. **Department of Mental Health management ensure staff who complete the Internal Control Certification Program questionnaires consider pharmacy operations, that Internal Control Certification Program questionnaires are accurately completed, all internal control**

weaknesses are identified, and an improvement plan is developed to address each weakness.

LAC DMH
LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH
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MARVIN J SOUTHARD D S W
Director
ROBIN KAY Ph D
Chief Deputy Director
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Medical Director

July 11, 2013

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Marvin J. Southard, D.S.W.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF THE LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH (DMH) PHARMACY SERVICES DIVISION**

I want to thank the Auditor-Controller for the comprehensive review conducted of the DMH Pharmacy Services Division of the Office of the Medical Director. Working in a highly collaborative manner, your staff not only reviewed all systems that impact Pharmacy Services but also assisted DMH staff in developing corrective actions that have significantly strengthened this important program. The involvement of your dedicated staff has enabled DMH to accomplish the following:

- We strengthened our Indigent Medication Program, resulting in a Fiscal Year 2012-2013 cost savings of $9.4 million.
- A mechanism was developed to ensure contract pharmacies submit appropriate prescription costs to Medi-Cal and to enable DMH to recoup misdirected pharmacy claims totaling over $5 million as of March 2013.
- Numerous checks and balances were established to ensure the integrity and accuracy of Pharmacy operations.

The audit team assigned to this review provided DMH with the opportunity to thoroughly examine our processes. They provided support as we contemplated various system improvements that will be crucial in the implementation of health reform. I am confident that the attached DMH response will reflect the multiple strategies that have been instituted through the excellent work done by our two Departments.

If you have any questions or concerns, you may contact me, or your staff may contact Russell Kim, Pharm.D., Pharmacy Services Chief, at (213) 738-4725.

MJS:RK:RS

Attachment

c: Roderick Shaner, M.D.
Russell Kim, Pharm.D.

Attachment I

AUDITOR CONTROLLER'S PHARMACY SERVICES REVIEW OF THE DEPARTMENT OF MENTAL HEALTH

RECOMMENDATIONS AND DMH RESPONSES

Recommendation 1:

On an ongoing basis, identify prescriptions billed to the County that should be retroactively billed to Medi-Cal; instruct pharmacies to retroactively bill Medi-Cal, where appropriate; and recover payments for prescriptions that should have been billed to Medi-Cal.

DMH Response to Recommendation 1: Agree. Current and ongoing process.

In September 2010 DMH initiated a process to identify and recover inappropriate County General Funds (CGF) payments which are retroactively billable to Medi-Cal. Reviews are conducted quarterly and include an appeal process. The identified amounts, unless appealed and approved, are withheld from the pharmacy's monthly payment.

Recommendation 2:

Obtain a MEDS file of clients with addresses in adjacent counties to identify prescriptions that should be billed to Medi-Cal.

DMH Response to Recommendation 2: Agree and in process.

While our policy is to provide non-emergency services only to residents of Los Angeles County (LAC), occasionally residents of other counties are incorrectly identified as LAC residents due to inaccurate presenting data. We have successfully worked with County Counsel to develop a proper regulatory foundation for accessing the MEDS file for five County Data. CIOB is now working with the State to obtain regular access to this data; however, we have been unable to obtain a commitment to a specific date. Should this be unsuccessful, the Department will appeal to the Department of Health Care Services (DHCS) at an executive level.

Recommendation 3:

Use the Medi-Cal coverage information in the Department's IS to update PATS.

DMH Response to Recommendation 3: Agree, current and ongoing.

Agree, current and ongoing. DMH is now utilizing CIN#'s from IS to recheck claims monthly prior to issuance of payment. In addition, DMH is implementing

program changes in PATS to incorporate this CIN# check into routine edits, thereby updating PATS.

Recommendation 4:

Consider using pharmacy override transactions to update PATS to identify clients with Medi-Cal, where appropriate.

DMH Response to Recommendation 4: Agree.

However, DMH has considered and analyzed this concept but has determined that the magnitude of resource required would not be commensurate with the projected gains, and that there would be little incremental benefit. Further, the impending termination of the PATS along with its inherent limitations makes further investment in PATS unwise. The successor system will eliminate the need for override and will be in place by the end of 2013.

Recommendation 5:

Provide pharmacies with key Medi-Cal provided client data (e.g., CIN, Medi-Cal card issue date, birthday, etc.) in PATS to improve the pharmacies' ability to determine if a client has Medi-Cal coverage.

DMH Response to Recommendation 5: Agree.

These processes will be implemented by May 2013 and are justified despite the projected termination of PATS by the end of 2013.

Recommendation 6:

Instruct clinic staff to remind clients to present their Medi-Cal card when filling prescriptions.

DMH Response to Recommendation 6: Agree and completed.

On November 21, 2011, DMH advised program managers, prescribers, furnishers and contracted programs to remind clients to take their Medi-Cal cards to the pharmacy when they fill their prescriptions.

Recommendation 7:

Amend pharmacy contracts to require pharmacy staff to verify and document (e.g., Medi-Cal website printout) that a client does not have Medi-Cal, or other third-party coverage before billing the County, and monitor for compliance.

DMH Response to Recommendation 7: Agree and completed.

Pharmacy contracts have been amended to strengthen contract language that requires pharmacies to verify the clients' Medi-Cal eligibility/third party benefits status before billing the County. In addition, the amendment mentioned includes the requirement that pharmacies obtain and maintain proof of documentation of clients' Medi-Cal/third party benefits status.

DMH is developing a contract with a Pharmacy Benefits Management (PBM) service and implementation is expected to occur by the end of 2013. Once implemented, DMH will no longer contract with pharmacies. Therefore, the PBM will be responsible to audit the pharmacy network for compliance. DMH will monitor the PBM contract to ensure that the provider fulfills all contractual obligations including ensuring that the proper payor is billed when medications are dispensed to clients with third party benefits.

Recommendation 8:

Request an extension to bill Medi-Cal for prescriptions older than 12 months and for the difference between the full claim amount and the partial amount (i.e., 50%, 25%) that Medi-Cal will reimburse for claims submitted within 12 months.

DMH Response to Recommendation 8: Agree.

Although County Counsel advised that State Medi-Cal has no authority to grant a waiver of a Federal regulation which this request entails, DMH contacted DHCS to request that the State make an exception to enable DMH contracted pharmacies to submit claims more than one year past the date of service. On January 9, 2011, DHCS advised DMH to submit a written request to the Medi-Cal Specialty Mental Health Services Program/Medi-Cal Claims Customer Service Office (MedCCC) to request authorization for the use of a delay reason code. DMH submitted a written request but was directed to Affiliated Computer Service (ACS) Medi-Cal Pharmacy Claims Processor, which functions as the fiscal intermediary between DHCS and Medi-Cal providers. On May 15, 2012, ACS Medi-Cal Pharmacy Claims Processor replied to DMH's formal written request. Based upon the DHCS requirements described in the letter and the likelihood that even properly documented claims would be rejected, DMH made the business decision to forgo this process. The additional workload that would be placed upon the contracted pharmacy network would not result in substantial revenue and would likely result in pharmacies terminating their DMH contracts leading to severe disruption of the contracted network and its clients.

Recommendation 9:

Work with County Counsel to determine whether the County can recover improper billings from contract pharmacies for prescriptions not reimbursable by Medi-Cal.

DMH Response to Recommendation 9: Agree current and ongoing process.

DMH has consulted with County Counsel about improperly billed claims for medication dispensed, and it was determined that it was most prudent to move forward only with recoupment of those claims that are Medi-Cal reimbursable. As a result, DMH initiated a process in September 2010 to recoup on a quarterly basis inappropriate CGF payments made to contracted pharmacies for medications dispensed to Medi-Cal beneficiaries.

Recommendation 10:

If Medi-Cal approves the exception and/or County Counsel determines DMH can recover prior billings from the pharmacies, recover costs that contract pharmacies improperly billed to the County for prior periods, to the extent feasible.

DMH Response to Recommendation 10: Agree.

However, refer to DMH Responses to Recommendations #s 8 and 9. Based on communication with DHCS and consultation with County Counsel, DMH has determined that it is not feasible to recover costs from pharmacies that improperly billed DMH for prescriptions not reimbursable by Medi-Cal during prior periods.

Recommendation 11:

Ensure eligible patients are enrolled in PAPs, and that IMP staff updates client PAP eligibility information as required.

DMH Response to Recommendation 11: Agree and completed.

During FY 2009-10, DMH hired three additional IMP Coordinators (Patient Financial Service Workers) in an effort to increase the rate of identification and enrollment of eligible clients into voluntary pharmaceutical foundation Patient Assistance Programs (PAP). In addition, in July 2011 the Department's Strategies for Total Accountability and Total Success (STATS) program implemented an IMP measure to hold clinic staff responsible for obtaining benchmark goals for enrollment of eligible clients. Furthermore, the IMP database provides weekly updates regarding clients' eligibility and the status of PAP applications, including renewal and termination dates. This information has greatly aided IMP Coordinator staff in ensuring timely renewal of PAP applications.

Recommendation 12:

Maintain IMP shipment records to pharmacies.

DMH Response to Recommendation 12: Agree and completed.

In June 2008 DMH implemented an IMP database system which maintains a record of replacement medications that are received from PAPs and shipped to pharmacy contractors.

Recommendation 13:

Reconcile PAP shipments to pharmacy billings to ensure DMH does not pay for PAP enrollees' medications.

DMH Response to Recommendation 13: Agree and completed.

The IMP database established in 2008, which tracks shipments of replacement PAP medications to pharmacies, ensures that DMH does not initiate additional shipments or payment when the pharmacies still have PAP medication inventory.

Recommendation 14:

Require staff to maintain documentation of price updates to PATS for at least five years.

DMH Response to Recommendation 14: Agree, completed and ongoing.

Price print-outs from Cardinal Health (LA County wholesaler) and Price-RX (subscription price service) are now maintained by Pharmacy Services for at least five years.

Recommendation 15:

Require the Procurement Unit to ensure prescription prices to be paid through PATS are updated correctly.

DMH Response to Recommendation 15: Agree, completed and ongoing.

Pharmacy Services now monitors drug prices monthly via Cardinal Health and Price-Rx (third-party price databases). When there is a change, Pharmacy Services updates PATS with the new price and provides the following print-outs to the Procurement Unit: the current third-party price database, the old PATS price and the new PATS price, and Procurement staff verifies that price changes made to PATS are updated correctly. In addition, pharmacy and procurement units will initiate random unchanged PATS price audits against third-party databases.

Recommendation 16:

Develop procedures and controls to ensure the same staff cannot create a client record in PATS and also enter a prescription for that client.

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DMH Response to Recommendation 16: Agree.

DMH is acquiring a PBM with an E-Prescribing platform that will eliminate the use of PATS and any security issues associated with it. The target date for implementation of E-Prescribing is the end of 2013.

Recommendation 17:

Strongly consider requiring all providers to enter prescriptions into PATS or develop alternative controls to ensure the prescriptions are entered correctly.

DMH Response to Recommendation 17: Agree.

As noted above, DMH is acquiring a PBM and E–Prescribing platform that requires direct entry of prescriptions by prescribers/furnishers to ensure all prescriptions are authorized and accurate.

Prior to PBM/E-Prescribing implementation, DMH has instructed program managers, prescribers, and furnishers to remind clients to take a hardcopy prescription signed by the prescriber/furnisher to the pharmacy. In addition, contracted pharmacies have been instructed that they can dispense medications to clients only if the clients present a hard copy signed prescription. In the absence of a hard copy prescription the pharmacy must obtain a faxed signed prescription or document that confirms verbal authorization has been received from a designated clinic staff.

Recommendation 18:

Amend pharmacy contracts to require pharmacies to keep hard-copy prescription forms (or facsimile obtained directly from clinic) and monitor pharmacies for compliance.

DMH Response to Recommendation 18: Agree and completed.

In February 2012 DMH amended pharmacy contracts to require pharmacies to verify prescription details for accuracy and retain either: a copy of the PATS prescription, a facsimile of the prescription, or a verbal confirmation of the prescription reduced to a hard copy by the pharmacist. DMH expects to acquire an E-prescribing platform and PBM service by the end of 2013 and the associated contract will require regular back-end audits of participating pharmacies.

Recommendation 19:

Ensure client charts include the issuing provider and details for all prescriptions.

DMH Response to Recommendation 19: Agree and completed.

DMH program managers and contracted programs have been advised to monitor compliance with existing requirements for accurate documentation of prescription

Recommendation 20:

Develop ID requirements to receive services, including guidelines for waiving the ID requirements.

DMH Response to Recommendation 20: Agree and completed.

DMH has adopted a Client Identification and Address Verification policy (#202.41). This policy establishes acceptable means to positively identify clients before rendering non-emergency services. The policy waives the identification requirement only in emergency situations when delaying service would have immediate and significant impact on the client's health or well-being.

Recommendation 21:

Implement procedures requiring staff to verify that a client lives in the County, including guidelines to waive the residency requirement where justified.

DMH Response to Recommendation 21: Agree and completed.

The Client Identification and Address Verification policy establishes the need to verify County residency and includes criteria for waiving the residency requirement.

Recommendation 22:

DMH management ensures the purchasing and receiving functions are appropriately segregated.

DMH Response to Recommendation 22: Agree, completed, and ongoing.

DMH Pharmacy Services now orders pharmaceuticals by completing a special request which is processed by the Procurement Unit. The Procurement Unit makes the purchase, and the pharmaceuticals are received by Pharmacy Services. A separate pharmacist/ designee receive pharmaceuticals ordered by another pharmacist.

Recommendation 23:

Require all pharmacy payments to be approved by at least two staff, including one from Accounts Payable.

DMH Response to Recommendation 23: Agree, completed, and ongoing.

Pharmacy Services provides one level of written (e-mail) approval before authorizing A/P to make a payment. Current protocol and the nominal

disbursement amount require three levels of eCAPS approvers in order to release the payment.

Recommendation 24:

Ensure PATS-generated invoices are approved for payment by staff independent of approving price updates to PATS.

DMH Response to Recommendation 24: Agree and completed.

All price updates to PATS are now verified by the Procurement Unit, and all payments are approved by the pharmacy director.

Recommendation 25:

Ensure payment approvers verify that invoiced prices are correct prior to approving payment.

DMH Response to Recommendation 25: Agree and completed.

Pharmacy Services, Procurement and A/P staff now systematically review accuracy of invoiced prices by comparing PATS reports generated by ISD to third-party price databases prior to approval. In addition, pharmacy services and A/P staff will establish random price verification against third-party databases.

Recommendation 26:

Ensure staff maintains central files for payment approval documents for at least five years.

DMH Response to Recommendation 26: Agree, completed, and ongoing.

A/P staff now retains central payment approval records for five years.

Recommendation 27:

Develop policies and procedures for pharmacy invoices, including minimum invoice standards (e.g., invoice pricing, client and medication details, billing timeframes, required documentation, etc.).

DMH Response to Recommendation 27: Agree and completed.

Procedures have been implemented to enter non-PATS (manual) prescriptions into PATS to ensure that minimum invoicing standards including invoice pricing, client and medication details, and required documentation are received prior to payment processing.

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Recommendation 28:

Ensure Accounts Payable staff does not approve payment requests in eCAPS based on the review performed by other staff.

DMH Response to Recommendation 28: Agree, completed, and ongoing.

Pharmacy Services now forwards the source documentation (pharmacy's copy of original prescription and copy of prescription label) to A/P. A/P staff then reviews the source documentation and reconciles this information with the PATS payment report and the manual payments database. A/P staff maintains source documents.

Recommendation 29:

Require Accounts Payable staff to continue to apply at least one approval in eCAPS for non-PATS prescription payments.

DMH Response to Recommendation 29: Agree, completed, and ongoing.

All manual prescriptions are now entered into PATS. Payments are processed via PATS which interfaces with eCAPS. Based on the normal monthly payment amount, three levels of A/P staff approvals are included on the AC's eCAPS transmittal report.

Recommendation 30:

Ensure staff obtains an appropriate invoice, confirm the prescription is authorized, and was not previously paid before approving non-PATS prescription payments.

DMH Response to Recommendation 30: Agree, completed, and ongoing.

Pharmacy Services staff now requires an appropriate invoice for all manual payments requested by pharmacies and confirms that the prescription was not previously paid by comparing against previously paid claims in the master manual claims database. Prescriptions are confirmed to be authorized via a monthly client list obtained from Countywide Resource Management for PDP patients. For non-PDP manual payment requests documentation is reviewed to verify source of prescription.

Recommendation 31:

Consider having Pharmacy Services staff apply one approval in eCAPS for non-PATS prescription payment requests.

DMH Response to Recommendation 31: Agree, completed, and ongoing.

Manual payments for non-PATS prescription claims are now approved by Pharmacy Services staff prior to entering the claims into PATS which interfaces with e-CAPS. A/P staff approves the claim in e-CAPS. Each claim is reviewed by both pharmacy and A/P staff to ensure that the prescription was authorized and that the claim is supported by sufficient documentation.

Recommendation 32:

Require pharmacies to submit payment requests timely.

DMH Response to Recommendation 32: Agree, completed, and ongoing.

DMH has amended pharmacy contracts to include a requirement that pharmacies bill County for reimbursement within six months after medications are dispensed to uninsured clients.

Recommendation 33:

Ensure staff date-stamp invoices upon receipt.

DMH Response to Recommendation 33: Agree, completed, and ongoing.

However, since most manual payment invoices are received via fax, date and time stamp on fax will be used. A date-stamp will only be used for invoices received via mail or other means.

Recommendation 34:

Ensure vendors are paid within 30 days of receiving an invoice.

DMH Response to Recommendation 34: Agree, completed, and ongoing.

Manual claims are now processed on a monthly basis through the PATS system which interfaces with e–CAPS, ensuring that payments are made within 30 days.

Recommendation 35:

DMH management ensure staff maintain accurate records of rebates earned and received, receive the correct rebates, and properly record rebates in eCAPS.

DMH Response to Recommendation 35: Agree, completed, and ongoing.

The Pharmacy Director monitors and maintains records of the rebate amounts received from each pharmaceutical company to verify that those rebates meet the terms of the relevant rebate contract. Pharmacy Services provides to the Accounting Division's Cash Collection Section a copy of the quarterly rebate

reports sent to the various pharmaceutical companies. The Accounting Division records rebates received in eCAPS. To ensure accuracy of rebate amounts received, Pharmacy Services uses the rebate contract terms and medication usage data to determine estimated rebate amounts. Accounting Division receives all rebate payments and notifies Pharmacy Services if received amount deviates more than 10% from the amount expected to be received and also notifies Pharmacy Services when expected rebate checks are not received.

Recommendation 36:

DMH management evaluate requiring clients to pay for medication costs as part of their annual ability to pay liability and charge clients if practicable.

DMH Response to Recommendation 36: Agree.

However, DMH has determined that this recommendation is not feasible given the high cost of implementing such a system, the likely low rate of return, and the significant potential adverse impact on clinical care preclude implementation of such procedures.

Recommendation 37:

Ensure staff maintains perpetual pharmaceutical inventory records.

DMH Response to Recommendation 37: Agree, completed, and ongoing.

Perpetual inventory of PAP medications is now maintained by Pharmacy Services staff in the IMP database. Pharmacy Services reconciles inventory of non-PAP procured medications such as injectables on a quarterly basis.

Recommendation 38:

Ensure staff with no other inventory-related responsibilities performs periodic physical inventories of pharmaceuticals, compare the counts to inventory records, and report discrepancies to management.

DMH Response to Recommendation 38: Agree, completed, and ongoing.

DMH Compliance Program and Audit Services (CPAS) staffs, which have no other pharmaceutical inventory responsibilities, conduct audits and document the findings quarterly. Discrepancies are reported to the DMH Chief Deputy Director and the Office of the Medical Director.

Attachment I

Recommendation 39:

Report fiscal year-end pharmaceutical inventory balances to the Auditor-Controller.

DMH Response to Recommendation 39: Agree, completed, and ongoing.

Fiscal year-end pharmaceutical inventory balances are reported by CPAS to the DMH Chief Deputy Director, Office of the Medical Director, and the AC.

Recommendation 40:

Develop policies and procedures to use excess PAP inventory.

DMH Response to Recommendation 40: Agree and completed.

DMH Policy 103.6 "Assisting Clients in Applying for Patient Assistance Programs (PAPs)" includes procedures for utilizing excess PAP inventory.

Recommendation 41:

Develop policies and procedures to rotate pharmaceutical inventory on a "first in, first out" basis.

DMH Response Recommendation 41: Agree and completed.

DMH has developed and implemented procedures for rotating pharmaceutical inventory on a "first in, first out" basis so that medications with the earliest expiration dates are utilized first.

Recommendation 42:

Work with the A-C, CEO, County Counsel, and County's independent auditors to determine if the PAP medications are donations, and if appropriate, obtain Board approval to receive PAP medications and record the value of free medications received in DMH's budget.

DMH Response to Recommendation 42: Agree.

While DMH has already been advised by County Counsel that PAP medications provided by pharmaceutical foundations for specific eligible clients are not gifts to the County, DMH will request further exploration of this issue with the AC, CEO, and others as deemed appropriate and will obtain Board approvals as may become necessary. It should be noted that reporting PAP medications as gifts could jeopardize the IMP program with a potential consequence of the annual loss of more than $9 million in cost avoidance.

Attachment I

Recommendation 43:

Develop a policy, approved by the Board, County Counsel, and CEO Risk Management, defining DMH's role and responsibilities for utilizing the PAPs.

DMH Response to Recommendation 43: Agree and in progress.

Existing policy and procedures developed in consultation with County Counsel define DMH's role and responsibilities for utilizing PAPs. Please see response to recommendation #42 regarding the question of PAP medications as donations. DMH will share this policy and procedure with the CEO and the Board as appropriate.

Recommendation 44:

DMH management should increase the level of management oversight over pharmacy operations.

DMH Response to Recommendation 44: Agree, completed, and ongoing.

DMH has fully integrated pharmacy operations into the appropriate DMH structures, including procurement, compliance, budget, accounts payable and receivables. These actions have greatly improved pharmacy efficiency, accountability, and oversight. Payments and prices are now verified with the involvement of procurement and accounts payable. Approvals for payments are provided by pharmacy director utilizing written documented communications with Accounts Payable.

Recommendation 45:

DMH management ensure staff who complete the ICCP questionnaires consider pharmacy operations, those ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

DMH Response to Recommendation 45: Agree, completed, and ongoing.

Since FY 2010-11 DMH has included pharmacy operations in the ICCP process. All individuals involved in ICCP have been trained in accurate completion of the ICCP questionnaires. Corrections of all internal control weaknesses have been implemented, including: conducting regular physical inventory of medications and pharmacy supplies, maintaining appropriate inventory documentation for five years, periodic reconciliation of detailed subsidiary records, and investigation by supervisory personnel of variances between the physical and perpetual inventories.