REPORT
ON THE
PERFORMANCE REVIEW

PUBLIC HEALTH SERVICE BUREAU
OAKLAND, CALIFORNIA

AIDS DRUG AND ASSISTANCE PROGRAM (ADAP)
CONTRACT NO. 05-45000
FISCAL PERIOD
JULY 1, 2005 THROUGH JUNE 30, 2006

Audits Section - Richmond
Financial Audits Branch
Audits and Investigations
Department of Health Care Services

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State of California—Health and Human Services Agency
Department of Health Care Services

DAVID MAXWELL-JOLLY
Director

ARNOLD SCHWARZENEGGER
Governor

MAR 3 7 2009

Eric Flowers
Chief Executive Officer
Public Health Service Bureau
200 Webster Street, Suite 200
Oakland, CA 94607

Dear Mr. Flowers,

The claims for expenditures for services provided by Public Health Service Bureau (PHSB), under the AIDS Drug Assistance Program, Contract No. 05-45000, for the fiscal period of July 1, 2005 through June 30, 2006 have been reviewed by the Financial Audits Branch of the Department of Health Care Services. In addition, a review was made of the program's management and operational procedures.

Except as set forth in the following paragraph, our review was made in accordance with generally accepted government auditing standards as promulgated by the Comptroller General of the United States. Accordingly, our review included such tests of the accounting records and other review procedures, as we considered necessary under the circumstances.

The scope of our review was limited to specific contract or program requirements relating to financial compliance and did not include sufficient work to determine whether the financial statements present fairly the financial position and the results of the financial operations. We have not duplicated the work performed by the other auditors.

As noted in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position referred above. Consequently, no financial statements are presented.

The program review was conducted during the months of May through August 2007. The exit conference was held on September 10, 2007 at which time the results of the engagement were discussed.

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This Audit Report includes the:

1. Executive Summary of Findings
2. Program Compliance
3. Fiscal Findings
4. Management Findings
5. Financial Schedule

The report concludes that $5,771 is due the State.

Please develop and submit a corrective action plan within ninety (90) days of receipt of this letter to:

Therese Ploof, Chief
AIDS Drug Assistance Program
Office of AIDS
California Department of Public Health
P.O. Box 997426, MS 7700
Sacramento, CA 95899-7426

If you should have any further question, please contact Stephen Berk, Unit Chief, at (916) 449-5553.

Louise Wong, Chief
Audits Section – Richmond
Financial Audits Branch

Certified

cc: Therese Ploof, Chief
Stephen Berk, Unit Chief
Kelly Cleveland, Program Coordinator

AIDS Drug Assistance Program
Office of AIDS, California Department of Public Health
P.O. Box 997426, MS 7700
Sacramento, CA 95899-7426

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Ramsell/Public Health Service Bureau (PHSB)
AIDS Drug Assistance Program (ADAP)
Contract No. 05-45000
Fiscal Period: July 1, 2005 Through June 30, 2006

I. EXECUTIVE SUMMARY OF FINDINGS

The following is a summary of our findings:

A. CONTRACT COMPLIANCE:

1. As of June 30, 2006, there were 28,160 ADAP clients.

   Audits sample selected 360 ADAP clients with prescriptions to determine whether these clients qualified for Medi-Cal. The findings disclosed that 37 of the 360 ADAP clients were Medi-Cal eligible with no patient share of cost. This represents 10% of the sample. 12 of the 360 ADAP clients were Medi-Cal eligible with patient share of cost. This represents 3% of the sample. (Section IV, 1)

2. The review disclosed that there were two clients that were Medi-Cal eligible with a share of cost and ADAP paid for drugs in excess of the client's share of cost for the month. (Section IV, 1)

3. The review disclosed that MOMs pharmacy, dba: Medicine Made Easy, billed Medi-Cal and ADAP for the same drug during the month of May 2006 for one client. The client was Medi-Cal eligible with no share of cost. A recovery of $591 is proposed. (Section IV, 2).

4. PHSB processed prior authorizations greater than 24 hours which was not in compliance with the contract requirements. (Section IV, 3)

5. PHSB processed client enrollments greater than 24 hours which was not in compliance with the contract requirements. (Section IV, 4)

6. PHSB properly submitted weekly invoices within 15 days of the end of the invoicing period to the State. (Section IV, 5)

7. PHSB properly included the required elements in their standard subcontractor agreements. (Section IV, 6)

8. PHSB properly paid their subcontracted pharmacies within 15 calendar days of receiving payment from the State. (Section IV, 7)

9. PHSB was able to accommodate additions to, and/or changes in the formulary within 24 hours. (Section IV, 8)

10. PHSB maintains a written, timely, and accessible grievance procedure for ADAP clients to resolve problems regarding all components of ADAP program delivery under this contract. (Section IV, 9)

11. PHSB provided a total of ten eligibility trainings to new and existing enrollment workers. (Section IV, 10).

12. PHSB submitted four quarterly assurance reports. The reports contained the required narratives; however, two of the four reports were submitted beyond the 30 calendar days after the last day of each quarter. (Section IV, 11)

B. FISCAL FINDINGS:

1. Audits reviewed PHSB's California drug pricing file and noted that overall, the drug pricings were in accordance with the contract reimbursement rates for brand and generic drugs. (Section V, 1A)

2. Audits sample selected 360 transactions from the 50 highly utilized and/or most expensive drugs, and requested copies of prescriptions to validate the pharmacy claims that were billed and paid by the State ADAP Program. Two pharmacies did not submit the requested prescriptions. A recovery of $5,180 is proposed.

   Other areas out of contract compliance include:

   a. There were 92 transactions wherein the pharmacies did not maintain signature or delivery logs.
   b. 14 transactions were not shipped within 48 hours of prescription fill date.
   c. There were five instances where more than 13 formulary drugs per client per calendar year were dispensed.
   d. There were five transactions from the county jail dispensed medications were in excess of a seven-day supply. (Sections V, 1B and 1C)

3. PHSB is reimbursed a transaction fee for every transaction processed. This fee is to cover administrative activities performed by the contract. Review of approved weekly invoices disclosed that total transaction fees accounted for approximately 3.8% of actual program costs. (Section V, 1D)

4. PHSB invoices the Office of AIDS on a weekly basis. Audits judgmentally selected four invoices billed to Office of AIDS and reviewed the data against detail supporting documents. The invoices traced to the Contractor's database with no variances. Additionally, the drug pricings for 225 approved transactions were verified without exception. (Section V, 1D)

5. Audits requested invoices for 50 highly utilized and/or most expensive drugs from 32 PHS pharmacies for purchases made from July 1, 2005 to June 30, 2006 to determine the costs of drugs paid by the pharmacy. Based on the review of invoices for generic drugs, and 100 invoices for branded drugs received from ten PHS responding pharmacies, Audits found that the contracted rates ranged from 58% higher than the invoice amounts for generic drugs, and 3% to 66% higher than the invoice amounts for branded drugs. (Section V, 2)

6. The actual program costs for the fiscal period ended June 30, 2006 were $56,903,058 (18.97%) under the contract budget. (Sections V, 3 and VII)

7. Ramsell maintains the financial records on a calendar year basis. The corporation's financial statements for the calendar years ended December 31, 2005 and 2006 have been examined by other auditors, whose report will not be issued until a later time. (Section V, 4)

8. On March 3, 2005, Ramsell filed a complaint against one of the Company's former employees. On April 7, 2005, the former employee filed a cross-complaint against the Company. The trial date completed on September 5, 2007. Judgments were rendered in favor of Ramsell Corporation in all accounts. (Section V, 5)

II. INTRODUCTION

A. DESCRIPTION OF PROGRAM

The AIDS Drug Assistance Program (ADAP) provides drugs related to the treatment of HIV and AIDS for clients who are not otherwise covered by private insurance, Medi-Cal, or any other third party payor, and cannot afford the cost of these drugs themselves. The drugs are provided on a sliding scale based on specific financial eligibility requirements. ADAP is the payor of last resort.

B. DESCRIPTION OF AGENCY

The State Office of AIDS (OA) has centralized the pharmacy billing and claims adjudication of the ADAP by contracting with Ramsell Corporation.

Ramsell Corporation, formally known as Professional Management Development Corporation (PMDC), was incorporated in California on August 14, 1967. The corporation was reorganized during March 2006 and the parent company has been re-named Ramsell Holding Corporation. During July 1, 2005 to June 30, 2006 Ramsell Holding Corporation is the parent company to three healthcare related businesses, including the organization that manages the ADAP contract, Public Health Service Bureau (PHSB). The Ramsell family of companies also includes an information technology and a real estate management and investment business.

PHSB acts as a fiscal intermediary between the State and the pharmacies which they subcontract. PHSB, who has a subcontract with Health Trans, provides on-line pharmacy billing and adjudication, which enables statewide dispensing of drugs to clients. Eligibility screening is performed at decentralized sites and is overseen by the County Local Health Jurisdictions or their designees. However, the Office of AIDS has the ultimate responsibility of overseeing those eligibility/enrollment sites.

C. SITE LOCATIONS

PHSB's main office is located at 200 Webster Street, Suite 200, Oakland, CA 94607.

As of June 30, 2007, there are 241 enrollment sites and 3,764 subcontracted pharmacies participating statewide.

D. FUNDING SOURCES

The ADAP is funded by Federal and State funds, and rebates from drug manufacturers with pharmaceuticals on the ADAP formulary.

E. PROGRAM GOALS AND OBJECTIVES

The ADAP seeks to prolong the health, productivity, and quality of life of clients with HIV and AIDS who cannot otherwise afford the cost of drugs currently available for treatment of this terminal/chronic epidemic by maintaining program accessibility.

III. SCOPE OF REVIEW

The Financial Audits Section's review consisted of three parts:

1. A review of the operation to determine the Contractor's effectiveness and efficiency in administration and compliance with the applicable statutes, regulations, terms, and provisions of the State contract.

2. A review of the financial and client billing records to ensure the existence of proper documentation and the propriety of claims submitted to the State for reimbursement.

1. A review of the reported Average Wholesale Prices (AWP) and the calculation of the amount billed to the State for compliance with the contract provisions.

IV. CONTRACT COMPLIANCE

The review was performed to determine if the Public Health Service Bureau (PHSB) conducted the program in compliance with the contract terms and applicable regulatory requirements. The following is a summary of findings relating to this portion of the review:

1. MEDI-CAL ELIGIBILITY:

For the fiscal period ended June 30, 2006, there were 28,160 ADAP clients.

Audits sample selected 360 ADAP clients with prescriptions to determine whether these clients qualified for Medi-Cal. The review disclosed that 37 of the 360 ADAP clients were Medi-Cal eligible with no patient share of cost (SOC). This represents 10% of the sample. Twelve of the 360 ADAP clients were Medi-Cal eligible with patient share of cost. This represents 3% of the sample.

The result is illustrated in the table below:

Period	Medi-Cal Eligible with no Patient SOC	Medi-Cal Eligible with Patient SOC	Total
7/1/2005 to 6/30/2006	37	12	49
Total Sample	360	360	360
% to Total	10%	3%	13%

Of these 49 clients, 25 were assigned Group Number 010 – ADAP with No Other Payer Source, 15 were assigned Group Number 913 – ADAP for Medi-Cal pending, eight were assigned Group Number 013 – ADAP with Medi-Cal Share of Cost, and one was assigned 113 – ADAP with Medi-Cal Share of Cost plus Private Insurance.

Effective May 1, 2005, PHSB verified Medi-Cal eligibility for all new and recertifying applications except for undocumented immigrants and applicants enrolled through the county jail system (Group Number 018).

PHSB has worked closely with the Office of AIDS (OA) to develop a process for verifying Medi-Cal eligibility for ADAP clients using the Medi-Cal Eligibility Data (MEDS) System. PHSB and OA exchanged information monthly in this process. PHSB takes information provided by OA to make the appropriate changes to ADAP client records to more accurately reflect clients' Medi-Cal status.

Our review disclosed that there were two of the twelve clients who were Medi-Cal eligible with a share of cost billed and paid by ADAP in excess of the Medi-Cal share of cost amount.

There were two clients categorized as 100% ADAP with no other payor source. Audits' review disclosed that both clients were Medi-Cal eligible with a share of cost amount. PHSB is allowed to pay for drugs on the ADAP formulary up to the client's Medi-Cal share of cost amount. There were two months, one for each client wherein PHSB approved these two client's claims in excess of the Medi-Cal share of cost amount.

Recommendation:

PHSB should continue to work closely with the Office of AIDS to develop a process for verifying Medi-Cal eligibility for ADAP clients using the Medi-Cal Eligibility Data (MEDS) System. Clients' share of cost should be reviewed so the Contractor does not bill ADAP for drugs that exceed the client's share of cost amount.

2. DUPLICATE PAYMENTS REVIEW:

Our review disclosed that there was one pharmacy that billed and received duplicate payments from ADAP and Medi-Cal for one client.

The pharmacy made duplicate billings to ADAP and Medi-Cal programs for the drug Truvada with a fill date of May 2006. The pharmacy acknowledged that Medi-Cal should have not been billed.

Pharmacy Name	Pharmacy Number	Client Name	Medi-Cal Overpayment
MOMS (Medicine Made Easy)	0506761	TG	$591.00

Recommendation:

Audits proposes a recovery of $591.00 due to the pharmacy's billing error.

3. PRIOR AUTHORIZATION (PA) PROCESSING:

According to PHSB's Request for Proposal response, the Contractor's turnaround time for processing prior authorization (PA) requests is within 24 hours during normal business hours.

The Contractor shall fill prescriptions for ADAP clients within 24 hours of receipt of

ADAP client prescription requests as outlined in the Contract, Exhibit A, Scope of Work, Section D(5). The 24-hour requirement is inclusive of prior authorization processing requests.

Our review of the Contractor's internal PA processing system disclosed that PHSB on average took longer than 24 hours to process prior authorizations. The result is illustrated in the table as follows:

Month Reviewed	Number of PAs Over 24 Hours	Total PAs Reviewed	Percentage Over 24 Hours
July 2005	103	132	78.03%
August 2005	83	119	69.75%
September 2005	81	111	72.97%
October 2005	60	117	51.28%
November 2005	98	122	80.33%
December 2005	112	140	80.00%
January 2006	120	139	86.33%
February 2006	121	125	96.80%
March 2006	92	106	86.79%
April 2006	5,531	18,940	29.20%
May 2006	2,048	18,547	11.04%
June 2006	807	17,181	4.70%

The high percentages of PA processing exceeding 24 hours for the first three quarters of the fiscal year were primarily due to the Contractor's inability to fill pharmacy technician and help desk vacancies, and Medicare Part D implementation which increased phone volume.

Improvements in processing PA were noted for the period starting from April 1, 2006 through June 30, 2006 when the Contractor formed a new Claims Department. With the additional staff performing other tasks, the provider support representatives can focus on prior authorization processing.

Recommendation:

PHSB should continue to monitor this area to ensure that prior authorizations are processed timely so that the prescriptions will be filled within 24 hours of receipt of ADAP client prescription requests to comply with the contract requirement.

4. CLIENT ENROLLMENT PROCESSING:

PHSB's Request for Proposal which is included in the Contract Agreement, stated that client enrollments are to be processed by PHSB within 24 hours.

Our review of the Contractor's internal random audits disclosed that PHSB took longer than 24 hours to process client enrollments. The result is illustrated in the table as follows:

Month Reviewed	Number of Records Over 24 Hours	Total Records as Reviewed	Percentage Over 24 Hours
July 2005	80	2,887	2.77%
August 2005	195	2,834	6.88%
September 2005	218	2,991	7.29%
October 2005	675	2,845	23.73%
November 2005	562	3,015	18.64%
December 2005	335	3,996	8.38%
January 2006	759	4,152	18.28%
February 2006	284	3,513	8.08%
March 2006	137	3,657	3.75%
April 2006	955	3,276	29.15%
May 2006	1,272	3,139	40.52%
June 2006	145	3,132	4.63%

PHSB explained that there were circumstances that would delay enrollment processing time. These circumstances include, but are not limited to the following:

a) Illegible enrollment forms or poor FAX transmissions
b) Incomplete enrollment forms
c) PHSB's staff errors
d) High enrollment volume days

Recommendation:

PHSB should continue to monitor the client enrollment processing to ensure that client enrollments will be processed within 24 hours as required by the contract agreement.

5. WEEKLY INVOICES:

The Contractor must submit weekly invoices and data reports to the State no later than fifteen (15) calendar days after the last day of the invoicing period as outlined in the Contract, Exhibit A – Scope of Work, Section H(3b).

Our review of the Office of AIDS' receipt of invoices and the Contractor's records

disclosed that this requirement has been met.

6. SUBCONTRACTS:

The Contractor shall ensure that all subcontracts for services include provisions requiring compliance with applicable terms and conditions specified in the contract and contract amendment as outlined in the Contract, Exhibit A, Scope of Work, Section H(7).

Our review of PHSB's standard subcontract and exhibits indicated the required elements have been included in accordance with the contract requirements.

7. PAYMENTS TO SUBCONTRACTORS:

The Contractor shall process and approve prescription claims within fifteen (15) calendar days of the Contractor's receipt of payment from the State for that period as outlined in the Contract, Exhibit A, Scope of Work, Section E(3).

Audits sample selected payments made to the Subcontractors for twelve (12) invoice periods. Based on our review of the Contractor's bank statements and check registers, PHSB paid the subcontracted pharmacies on a timely basis in accordance with the contract requirement as shown below:

Invoice Period	Date Payments Received from State	Date Payments Made to Pharmacies	Number Of Days
07/04/2005 – 07/10/2005	07/22/2005	08/02/2005	11
08/01/2005 - 08/07/2005	08/19/2005	08/26/2005	7
09/05/2005 - 09/11/2005	09/29/2005	10/11/2005	12
10/03/2005 - 10/09/2005	10/19/2005	11/01/2005	13
11/07/2005 - 11/13/2005	11/23/2005	12/06/2005	13
12/12/2005 - 12/18/2005	01/06/2006	01/19/2006	13
01/09/2006 - 01/15/2006	01/26/2006	02/08/2006	13
02/06/2006 - 02/12/2006	02/24/2006	03/09/2006	13
03/06/2006 - 03/12/2006	03/21/2006	04/03/2006	13
04/03/2006 - 04/09/2006	04/19/2006	05/02/2006	13
05/08/2006 - 05/14/2006	05/24/2006	06/05/2006	12
06/05/2006 - 06/11/2006	06/21/2006	07/03/2006	12

8. FORMULARY MANAGEMENT:

The Contractor must be able to accommodate additions to and/or changes in the

formulary within 24 hours upon receipt of notification from the Office of AIDS per the Contract, Exhibit A, Scope of Work, Section D(3).

During the contract period, the Office of AIDS issued seven program administrative letters (PALs) related to formulary additions or changes. The Contractor is in compliance with this contractual requirement.

9. GRIEVANCE PROCEDURE:

PHSB is required to develop and maintain a written, timely, and accessible grievance procedure for ADAP clients to resolve problems regarding all components of ADAP program delivery as outlined in the Contract, Exhibit A, Scope of Work, Section C(7).

PHSB received a total of four grievances during the fiscal year ended June 30, 2006. Based on a review of the Quarterly Assurance Reports, the Contractor had properly resolved the grievances either internally or by referring the grievances to the Office of AIDS.

10. ELIGIBILITY TRAININGS:

PHSB must conduct a minimum of five to ten annual eligibility trainings in conjunction with the State, for ADAP enrollment workers, regarding ADAP eligibility requirements and enrollment procedures per the Contract, Exhibit A, Scope of Work, Section C(9).

During the fiscal year 2005-2006, PHSB provided a total of ten eligibility trainings. These trainings were presented to 378 enrollment workers; 51% of which were attended by new enrollment workers while the remaining 49% were existing enrollment workers.

11. QUALITY ASSURANCE REPORTS:

PHSB is required to provide quarterly quality assurance reports that include a narrative of accomplishments for the quarter, data processing problems encountered and how they were resolved as outlined in the Contract, Exhibit A, Scope of Work, Section H(2). These reports must be submitted to the Office of AIDS no later than 30 calendar days after the last day of each quarter.

Four quality assurance reports were submitted to OA and contained the required narratives on the accomplishments as well as challenges for the quarter. Two of the four reports were submitted beyond the 30 calendar days after the last day of each quarter as follows:

Ramsell/Public Health Service Bureau (PHSB)
AIDS Drug Assistance Program (ADAP)
Contract No. 05-45000
Fiscal Period: July 1, 2005 Through June 30, 2006

Quarter	Date Submitted	No. of Days
First Quarter (7/1/05 - 9/30/05)	12/12/2005	73
Second Quarter (10/1/05-12/31/05)	3/13/2006	72

Recommendation:

PHSB must submit all quarterly quality assurance reports to OA no later than 30 calendar days after the last day of each quarter as stated in the contract.

V. FISCAL FINDINGS

The following is a discussion of the fiscal findings related to Financial Audits Branch's review of Public Health Service Bureau.

1. CONTRACT REIMBURSEMENT RATES:

A. CALIFORNIA (CA) DRUG PRICING FILE REVIEW:

Audits reviewed PHSB's California Drug Pricing file for proper pricing in accordance with the contract agreement. The contract sets maximum reimbursement rates with any additional discounts to the Average Wholesale Price (AWP) reimbursement rates that the Provider negotiates with its participating pharmacy to be split between PHSB and the State. Based on a review of selected transactions, PHSB passed 100% of any additional reimbursement savings to the State.

1). NON PUBLIC HEALTH SERVICES (NON-PHS) PHARMACIES:

The maximum reimbursement amount shall be the average wholesale price (AWP) of the drug minus the contracted rate (which differs for brand and generic products), plus a specified amount per prescription dispensing fee as outlined in the Contract, Exhibit B, Attachment I.

Audits identified 50 highly utilized and/or most expensive drugs from the top 25 volume Non-PHS pharmacies, and sample selected 300 transactions from those drugs for review.

Based on this review, PHSB billed the State the same amount it paid its subcontractors, which is proper.

2). PUBLIC HEALTH SERVICES (PHS) PHARMACIES:

The maximum reimbursement amount shall be the average wholesale price (AWP) of the drug minus the contracted rate (which differs for brand and generic products), plus a specified amount per prescription dispensing fee as outlined in the Contract, Exhibit B, Attachment I,.

The same reimbursement methodology is used for both Non-PHS and PHS pharmacies; however, the difference is in the contracted rates from which the reimbursement is calculated.

From the same 50 highly utilized and/or most expensive drugs, Audits sample selected 60 transactions from the top 10 volume PHS pharmacies for

review.

Based on this review, PHSB billed the State the same amount it paid its subcontractors, which is proper.

B. PRESCRIPTION DOCUMENTATION:

Contract Agreement, Exhibit A, Scope of Work, Section G(11), requires the Contractor and all Subcontractors to maintain all prescription records as required by the California Pharmacy Law (Business and Professions Code, Code 4000 et. Seq.), and its rules.

From the same 50 highly utilized and/or most expensive drugs, Audits sample selected 360 transactions and requested a copy of the prescription and/or refill authorization, dispensing label for the date of service and evidence of delivery/receipt, to validate the existence of pharmacy claims that were billed and paid by the Office of AIDS. Of the 360 requested transactions, nine or 3% were not submitted to Audits for review.

The nine missing prescriptions were from the following pharmacies. The total amounts billed and paid by the State for those missing prescriptions were $5,180.

NABP	Type	No. of Missing Prescriptions	Total Paid
0572479	PHS	6	$ 3,932
0546450	PHS	3	1,248
	Total:	9	$5,180

Recommendation:

To comply with the subcontract agreements and the California Pharmacy Law, the subcontracted pharmacies shall retain copies of all prescriptions filled for program members for a period of three years after the services and transactions occur. The subcontracted pharmacies shall establish a system to file the prescriptions in a manner that are readily retrievable upon request by Audits.

Audits recommend that PHSB should closely monitor these pharmacies to ensure compliance. Audits also proposes a recovery in the amount of $5,180.

C. DISPENSATION OF FORMULARY DRUGS:

From the Contract, Exhibit A, Scope of Work, the Contractor and their subcontracted pharmacies shall fulfill the following requirements in regards to the dispensation of formulary drugs:

1) SIGNATURE LOGS:

Contract 05-45000, Exhibit A, Section D(4) states, in part, "Ensure that client prescriptions will be dispensed from a participating pharmacy either directly to the client, the client's designated representative, or mailed/delivered to the client's place of residence, whichever the client prefers. Proof of delivery of the prescription to the client's designated address (signature of receipt) will be required for all mail order or delivered prescriptions."

Section 3.14 of PHSB's Pharmacy Provider Agreements, "The Provider shall maintain a signature log to document receipt of prescriptions dispensed and billed to PHSB for Pharmacy Services to Program Members. This log will contain the date of dispense, prescription number, and signature of the individual who receives the prescription. These records shall be retained by the provider for a period of three years, and upon written request, can be audited by representatives of PHSB, or a third party monitor, inspector or auditor under contract with PHSB and of any appropriate state or federal agency, at a mutually agreed upon time between Provider and PHSB "

Of the 360 requested pharmacy samples, 92 samples or 25.56% did not provide signature logs or proof of delivery is as follows:

NABP	Type	Number Without Signature Log	Total Requested Sample
0513831	Non-PHS	5	5
0506761	Non-PHS	15	15
0500872	Non-PHS	1	10
0555702	Non-PHS	1	12
0596924	Non-PHS	12	12
0596431	Non-PHS	1	10
0577481	Non-PHS	12	12
0551259	Non-PHS	10	10
0559522	Non-PHS	2	10

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NABP	Type	Number Without Signature Log	Total Requested Sample
0561022	PHS	1	6
0541715	PHS	1	6
0534467	PHS	6	6
0572479	PHS	6	6
0546676	PHS	3	6
0554623	PHS	6	6
0545357	PHS	3	6
0546450	PHS	6	6
0507472	PHS	1	6
Subtotal:		92	150
Total Sample:		360	
Percentage:		25.56%	

Recommendation:

PHSB should ensure that all subcontracted pharmacies maintain signature logs to document the receipt of prescriptions dispensed to comply with contractual and pharmacy provider agreements.

2). FILL PRESCRIPTIONS TIME FRAME:

Subcontracted pharmacies must fill prescriptions for ADAP clients within 24 hours of receipt of client prescription requests and mail order prescription must be shipped within 48 hours of receipt as outlined in the Contract, Exhibit A, Section D(5).

PHSB does not monitor the prescription dispensing process as there is no oversight of when the prescription request is submitted to the pharmacy. However, as a reasonableness test, Audits compared the fill date to the date the prescriptions were shipped and noted the following transactions exceeded the 48 hours requirement:

Sample No.	NABP	Drug	Fill Date	Ship Date
19	0558405	Retrovir	07/05/2005	07/12/2005
19	0561426	SMZ-TMP	07/28/2005	08/01/2005
95	0561705	Combivir	08/30/2005	09/02/2005
98	0561705	Kaletra	08/31/2005	09/13/2005
99	0561705	Norvir	08/31/2005	09/12/2005
100	0561705	Kaletra	06/05/2006	06/09/2006
101	0561705	Sustiva	06/19/2006	06/27/2006
102	0561705	Androgel	06/17/2006	07/12/2006
148	0500872	Epzicom	02/06/2006	02/14/2006
174	0429398	Marinol	11/15/2005	11/21/2005
244	0456084	Reyataz	11/17/2005	11/21/2005
287	0540408	Reyataz	09/01/2005	09/08/2005
289	0540408	Zerit	12/15/2005	12/20/2005
290	0540408	Reyataz	12/12/2005	12/20/2005

The above 14 exceptions were medications that were shipped beyond 48 hours of the fill date. These exceptions do not include medications that were picked up or transactions that did not have a signature/delivery log.

Recommendation:

PHSB needs to communicate to their subcontracted pharmacies that prescriptions for ADAP clients must be filled within 24 hours of receipt of client prescription requests and mail order prescriptions must be shipped within 48 hours of receipt.

3) PRESCRIPTION AUTHORIZATION:

PHSB must ensure that all prescriptions dispensed through ADAP are authorized by the prescribing physician's office at least every six months as outlined in Contact, Exhibit A, Section D(9).

As part of the prescription documentation review, Audits requested copies of the original prescription and/or subsequent refill authorization. Based on a total sample of 360; 275 samples or 76% provided valid prescriptions within six months of the fill date; 65 samples or 18% provided dispensing labels showing remaining refills plus a signature log evidencing receipt of medication; 20 samples or 6% were either missing the prescription or did not provide a dispensing label showing remaining refills. For 9 of the 20 that did

not submit any documentation at all. Audits have proposed a recovery for these exceptions. The recovery is identified in Section V(1B).

There was also one sample where the medication was dispensed in error. The physician did not authorize the refill, however, an error in the transcription indicated one refill, and when the patient requested the medication, the refill was dispensed. Since the medication was dispensed to the patient and this was a medication that the patient had previously taken, no recoveries will be proposed. The pharmacy has already taken steps to prevent future recurrence.

Audits also noted that there were four instances where the physician prescribed more than six refills at one time. However, PHSB's adjudication system does not allow any medication to be filled more than six times with the same prescription number. Based on our review of the selected transactions, there were no instances where more than six refills were dispensed using the same prescription number.

4) NUMBER OF FORMULARY DRUG:

The number of ADAP prescriptions shall not exceed 13 per formulary drug per client in a 12 month period as outlined in the Contract, Exhibit A, Section D(10a).

Of the 360 transaction samples requested, five transactions exceeded 13 formulary drugs per client in a 12 month period as follows:

Sample No.	NABP	Drug	Number of Fills
212	0550497	Prevacid	14
256	0573091	Epivir	14
259	0573091	Viramune	15
294	0559522	Ziagen	14
296	0559522	Reyataz	14

Recommendation:

PHSB needs to communicate with the three pharmacies that have dispensed more than 13 formulary drugs per client in a 12 month period to ensure compliance with the contract.

5) MEDICATION SUPPLY:

ADAP prescriptions shall not exceed a 30-day supply of the drug, unless pre-approved by the Contractor for special circumstances such as vacation supply. Audits reviewed the prescriptions and dispensing labels and did not note any instances where the dispensing exceeded the 30-day supply.

6) INCARCERATED CLIENT PRESCRIPTIONS:

ADAP prescriptions delivered to incarcerated ADAP clients shall not exceed a seven day supply as outlined in the Contract, Exhibit A, Section D10(c). Five transactions were selected from a county jail and it was noted that these transactions were dispensed in excess of a seven day supply. The dispensations were usually for a two-week supply.

Recommendation:

PHSB needs to communicate with vendors which dispense medications to incarcerated clients that dispensation shall not exceed a seven day supply.

D. INVOICE TESTING:

PHSB submits weekly invoices to the Office of AIDS for reimbursement. Audits judgmentally selected four invoices billed to OA and reviewed against the detail data files. The number of transactions, drug cost ingredients, dispensing fees, transaction processing fees, and offsets from the approved invoices were traced to data downloaded from the Contractor's database with no variances.

We reviewed 225 approved transactions and recalculated the net cost and unit price and noted no variances.

Audits also reviewed offsets and reversed transactions against detail data downloads and noted no variances. Offsets represented reversed transactions in which the clients did not pickup the medication. PHSB submits these as credits on the weekly invoices which include the drug ingredients costs and any associated dispensing fee.

E. TRANSACTION FEES:

After PHSB is reimbursed for the drug ingredient costs invoiced to the State, a transaction fee is reimbursed for all transactions. A prescription transaction has been defined as the exchange of information between two parties to carry out financial or administrative activities related to health care such as healthcare claims or encounters. A prescription transaction is any transaction that is

submitted to the Contractor's claims adjudication system, whether it is rejected or approved.

Review of approved weekly invoices disclosed that total transaction fees accounted for approximately 3.8% of actual program costs.

2. PUBLIC HEALTH SERVICES (PHS) INVOICE REVIEW:

For the fiscal year ended June 30, 2006, the Contractor had 32 PHS pharmacies. Audits requested original invoices for 50 highly utilized and/or most expensive drugs purchased from July 1, 2005 through June 30, 2006 by the PHS pharmacies to determine their actual costs. Audits received responses from 10 PHS pharmacies.

Our review disclosed that the reimbursement rates billed to the State for the brand and generic drugs were in accordance with the contract terms.

3. CONTRACT BUDGET:

The $1.5B current contract is for a three year period (July 1, 2005 to June 30, 2008) of which $300M was budgeted for the fiscal period (July 1, 2005 to June 30, 2006).

PHSB's actual program cost for the fiscal period of review was $243,096,942, which is within budget.

4. LITIGATION:

Ramsell Corporation recently completed litigation against a former employee in the Alameda County Superior Court.

The preparation for the case began in July 2005. The complexity of the case required about 13 months to prepare for a court trial. Court schedules delayed the start of the case further to August 7, 2007. The trial completed on September 5, 2007. Judgments were rendered in favor of Ramsell Corporation in all accounts. As of the date of this disclosure, Ramsell has not received notice by any of the defendants of their intent to move for a new trial or to appeal any of the judgments, although such motions and appeals are routine in significant litigation matters.

VI. SYSTEMS AND PROCEDURES

The management of PHSB is responsible for establishing and maintaining internal control structures. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We have not made a study and evaluation of PHSB's systems of internal accounting controls due to the limited scope detailed in Section III of this report. As a result, our performance review places no reliance on the internal control systems. Substantive tests were performed to ensure that the reimbursement rates billed to the State for the generic and branded drugs were in accordance with the contract terms.

VII. COTNRACTOR RESPONSE TO ADJUSTMENTS/FINDINGS

The contractor did not respond to the audit findings.

VIII. STATE PROGRAM RESPONSE TO ADJUSTMENTS/FINDINGS

The Office of AIDS did not have additional comments to the audit findings presented to them.

State of California

Schedule A
Department of Health Care Services

Contractor Name	Fiscal Period	Contract Number	Adjustments
PUBLIC HEALTH SERVICE BUREAU	JULY 1, 2005 THROUGH JUNE 30, 2006	05-45000	2

Adj. No.	Report References: Audit Report Schedule	Audit Report Line	Invoice or Claim Form #	Invoice or Claim Line	Explanation of Audit Adjustments		As Reported	Increase (Decrease)	As Adjusted	
					ADJUSTMENTS TO OTHER MATTERS					
1	N/A				To recover duplicate payment for the same drug billed and paid by both Medi-Cal program and AIDS Drug Assistance Program. Title 22, CCR, Section 51458.1		$0	$591	$591	*
2	N/A				To recover nine missing prescriptions that were billed and paid by the ADAP program. Title 22, CCR, Section 51458.1	*	$591	$5,180	$5,771	