

TEXAS HEALTH AND HUMAN SERVICES COMMISSION  
**OFFICE OF INSPECTOR GENERAL**  
AUDIT REPORT

**MEDICINE MAN PHARMACY**

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*A Texas Vendor Drug Program Provider*



August 22, 2019  
OIG Report No. AUD-19-026

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## HHSC OIG

TEXAS HEALTH AND HUMAN  
SERVICES COMMISSION

OFFICE OF  
INSPECTOR GENERAL

August 22, 2019

# AUDIT OF MEDICINE MAN PHARMACY

*A Texas Vendor Drug Program Provider*

## WHY OIG CONDUCTED THIS AUDIT

The audit objectives were to determine whether Prescriptions, Inc., doing business as The Medicine Man Pharmacy (Medicine Man) (a) properly billed the Texas Vendor Drug Program (VDP) for Medicaid claims submitted and (b) complied with contractual and Texas Administrative Code (TAC) requirements.

Medicine Man processed 14,593 Medicaid claims for dispensed prescriptions through VDP during the audit period of March 1, 2014, through August 31, 2016, for which it received reimbursements of \$1.5 million from Texas Medicaid.

## WHAT OIG RECOMMENDS

Medicine Man should:

- Maintain all records related to prescription services, including medication invoices.
- Return \$88,120.04 to the State of Texas.

## WHAT OIG FOUND

Medicine Man complied with TAC and contract provisions related to claims validity, quantity, refills, controlled substances, and acquisition cost. Information technology general controls were adequate, and the data used to form audit conclusions was reliable.

There were exceptions related to National Drug Code (NDC) usage. The NDC for the medication dispensed by a pharmacy must match the NDC for the medication billed to VDP. Only medications listed on the VDP formulary are eligible for reimbursement.

Medicine Man did not comply with the contractual requirement to maintain all records related to prescription services, including medication invoices, for all VDP claims. As a result, Medicine Man dispensed and billed VDP for 32 prescriptions for which the auditors could not verify the NDC of the medication dispensed because invoices (a) were not provided for review, (b) had a purchase date after the date the medication was dispensed, or (c) were for the purchase of an NDC that differed from the NDC billed. For 8 of the 32 prescriptions, the NDC for the item purchased differed from the NDC billed on the package size indicator only.

The missing or incorrect invoices prevented verification that the correct NDC had been purchased and was available on the date dispensed by Medicine Man. The 32 claims resulted in \$3,953.42 subject to extrapolation and recoupment. The total amount due to the State of Texas is \$88,120.04.

The OIG Audit Division presented the audit results, issues, and recommendations to Medicine Man in a draft report on July 2, 2019. Medicine Man provided additional documentation it believed would remove some exceptions in the draft report. Medicine Man's response is summarized following the issue. The OIG Audit Division reviewed the additional documentation provided by Medicine Man and was able to revise the issue as a result. This report contains the remaining errors, which are violations of TAC or the VDP contract, and the additional documentation failed to demonstrate that the violation had not occurred.

For more information, contact:

[OIG.AuditDivision@hhsc.state.tx.us](mailto:OIG.AuditDivision@hhsc.state.tx.us)

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## AUDIT BACKGROUND

The Texas Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Audit Division has completed an audit of Prescriptions, Inc., doing business as The Medicine Man Pharmacy (Medicine Man), a Texas Vendor Drug Program (VDP) provider.

NPI Number: 1750493664

License Number: 1881

Address: 7652 Bellfort Street  
Houston, Texas 77061

Medicine Man processed 14,593 Medicaid claims for dispensed prescriptions through VDP during the audit period, for which it received reimbursements of \$1.5 million.

### Objectives and Scope

The audit objectives were to determine whether Medicine Man (a) properly billed VDP for Medicaid claims submitted and (b) complied with contractual and Texas Administrative Code (TAC) requirements.

The audit scope included both initial fill claims and refill claims for the period from March 1, 2014, through August 31, 2016, as well relevant activities, internal controls, and information technology (IT) general controls in place through the end of fieldwork in April 2019.

### Methodology

The OIG Audit Division collected information for this audit through discussions, interviews, and electronic communications with Medicine Man management and staff and by reviewing:

- Supporting documentation for a sample of all claims billed to VDP during the audit scope
- Medicine Man's policies and procedures
- IT general controls involving the Liberty software system

The OIG Audit Division used two populations of paid claims, with service dates ranging from March 1, 2014, through August 31, 2016, for this audit. One population contained initial fill claims and one contained refill claims for the audit

period. It selected two samples for testing. One sample contained 92 initial fill claims and one sample contained 95 refill claims, for a total of 187 claims.

For the claims contained in the initial fill sample and the refill sample, the OIG Audit Division tested Medicine Man's compliance in six areas: (a) claims validity, represented by claims documentation maintained by the provider, (b) National Drug Code (NDC) usage, (c) quantity, (d) refills, (e) controlled substances, and (f) acquisition cost. This report details results, issues, and recommendations in those areas, when applicable, and the results of limited testing of IT general controls, performed to determine whether data used to form audit conclusions was reliable.

The OIG Audit Division issued an engagement letter on April 16, 2019, to Medicine Man providing information about the upcoming audit, and conducted fieldwork at the Houston, Texas, facility from April 22 through 25, 2019. The OIG Audit Division presented the audit results, issues, and recommendations to Medicine Man in a draft report on July 2, 2019.

Medicine Man provided additional documentation it believed would remove some exceptions in the draft report. Medicine Man's response is summarized following the issue. The OIG Audit Division reviewed the additional documentation provided by Medicine Man and was able to revise the issue as a result. This report contains the remaining errors, which are violations of TAC or the VDP contract, and the additional documentation failed to demonstrate that the violation had not occurred.

## Criteria

- Tex. Hum. Res. Code § 32.039 (2011 and 2015)
- 1 Tex. Admin. Code § 354 Subchapter F (2002 through 2013)
- 22 Tex. Admin. Code § 291 Subchapter B (2012 through 2014)
- Vendor Drug Program Pharmacy Provider Contracts #120340 and #148112 (1999 and 2016)

## Auditing Standards

### Generally Accepted Government Accounting Standards

The OIG Audit Division conducted this audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and

conclusions based on our audit objectives. The OIG Audit Division believes the evidence obtained provides a reasonable basis for our issues and conclusions based on our audit objectives.

### ISACA

The OIG Audit Division performs work in accordance with the IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals published by ISACA.

## AUDIT RESULTS

Medicine Man complied with TAC and contract provisions related to claims validity, quantity, refills, controlled substances, and acquisition cost. IT general controls were adequate, and the data used to form audit conclusions was reliable.

There were exceptions related to NDC usage. Details of these exceptions are included in following section.

### ***NATIONAL DRUG CODE***

The NDC for the medication dispensed by a pharmacy must match the NDC for the medication billed to VDP. Only medications listed on the VDP formulary are eligible for reimbursement. Relevant criteria follow.

*Vendor Drug Program Pharmacy Provider Contract #148112, Part 3 (G)(1) (March 3, 2016)* provides that the provider is obligated “To keep and maintain all the records necessary for the purchasing and dispensing of Recipient prescriptions, and furnish all reports in such form and scope as HHSC may require. This includes without limitation: (a) All prescription documents, medication invoices and medication acquisition documents.”

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### **Issue 1: Missing Medication Invoice**

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Medicine Man dispensed and billed VDP for 32 prescriptions for which the auditors could not verify the NDC of the medication dispensed because invoices (a) were not provided for review, (b) had a purchase date after the date the medication was dispensed, or (c) were for the purchase of an NDC that differed from the NDC billed. For 8 of the 32 prescriptions, the NDC for the item purchased differed from the NDC billed on the package size indicator only. Exceptions were identified in both sample populations.

Medicine Man did not comply with the contractual requirement to maintain all records related to prescription services, including medication invoices, for all VDP claims. The missing or incorrect invoices prevented verification that the correct NDC had been purchased and was available on the date dispensed by Medicine Man. As a result, VDP reimbursed Medicine Man \$3,953.42 for 32 unsupported claims. The amount subject to extrapolation and recoupment for the unsupported claims included:

- The full dollar amount for 24 claims
- The dispensing fee amount for the 8 claims the NDC billed differed from the NDC purchased only on the package size indicator

See Appendix B for details about these claims. The \$3,953.42 for 32 unsupported claims is subject to extrapolation and recoupment.

### **Recommendation 1**

Medicine Man should maintain all records related to prescription services, including medication invoices.

### **Management Response**

In its response to the draft audit report, Medicine Man appealed to the OIG Audit Division to reconsider the findings of the audit. Medicine Man asserted that, to keep medication in stock and available:

- Based on wholesaler inventory, medication is not always available in the same package size. At any time, Medicine Man may have multiple package sizes of the same medication for dispensing.
- Products have a long shelf life, and may sit on the shelf for years before completely dispensed and medication from multiple packages may be used to complete fills.

On the additional documentation supplied with its management response, Medicine Man noted several exceptions were package size error only and added, “please consider this as we did fill with correct drug, manufacturer, but did not note package size difference when entering [prescription].”

### **Auditor Comment**

Medicine Man provided acceptable invoices for 39 of the 71 claims originally identified as exceptions. The invoices for the remaining 32 claims were either not provided or acceptable. The issue stands with 32 claims unsupported by invoices.

## ***OVERPAYMENTS TO MEDICINE MAN***

Overpayments identified for the sample of claims were used to calculate an error rate, which was applied to the population of all claims using extrapolation. See Appendix A for the sampling and extrapolation methodology.

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### **Extrapolation**

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The populations included in this audit consist of 9,392 fee-for-service VDP claims from March 1, 2014, through August 31, 2016, for which HHSC paid Medicine Man \$1,494,366.58. Two statistically valid samples were selected that included a



total of 187 claims, for which HHSC paid Medicine Man \$108,807.00. The exceptions are detailed in Issue 1.

The estimated overpayment amount was calculated by extrapolating the dollar value of the errors across both sample populations. By extrapolating the results to both populations of claims within the scope of the audit, OIG determined that the exceptions represented an overpayment for the population of \$88,120.04. The overpayment was calculated using the lower limit of a two-sided 80 percent confidence interval.

### **Recommendation 2**

Medicine Man should return the extrapolated overpayment amount of \$88,120.04 to the State of Texas.

## CONCLUSION

Medicine Man complied with TAC and contract provisions related to claims validity, quantity, refills, controlled substances, and acquisition cost. IT general controls were adequate, and the data used to form audit conclusions was reliable.

There were exceptions related to NDC usage. Medicine Man did not comply with the contractual requirement to maintain all records related to prescription services, including medication invoices, for all VDP claims. As a result, VDP reimbursed Medicine Man \$3,953.42 for 32 unsupported claims. The \$3,953.42 identified for recoupment extrapolates to \$88,120.04, which is the total amount due to the State of Texas.

The OIG Audit Division offered a recommendation to Medicine Man, which, if implemented, will correct deficiencies in compliance with contractual requirements.

The OIG Audit Division thanks management and staff at Medicine Man for their cooperation and assistance during this audit.

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## Appendix A: Sampling and Extrapolation Methodology

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### Statistical Sampling

The OIG Data and Technology Division provided data for testing. It was administratively infeasible to review every claim in the population; therefore, the OIG Audit Division selected a sample of 92 initial fill claims and a sample of 95 refill claims to test. The following query parameters are provided for replication purposes.

Two item detailed queries were run in the Xerox Pharmacy Claims Data Warehouse using the Texas VDP PBM Universe table. The data sets included only fee-for-service paid claims for the audit scope. One data set included only initial fill paid claims and the second data set included only refill paid claims.

Query Result Objects field names included:

Prescription Number	Last Name (client)
First Name (client)	Participant ID
Drug Name	Drug Strength
Quantity	Days Supply
Nbr of Refills Authorized	Refill Number
Date of Service	Date Prescribed
Date Paid	Total Reimbursed Amount
DAW Code	NDC
Drug Class Code	Client Mailing Address Line 1
Birth Date (client)	Compound Code
DEA Code	Basis of Cost Determination
Basis of Reimbursement	Basis of Reimbursement Descr.
Prescriber ID	NPI (prescriber)
Prescriber Name	Batch Doc. Type Code
Group ID (client)	Tx Status Code
TPL Amt	Pharmacy ID
TCN	Pharmacy Name
Claim Line Number	Unlimited Drug Indicator
Allowed Ingredient Amount	Dispensing Fee Amount

Query Filters Included:

- Date of Service (between 03/01/2014, to 08/31/2016)
- TX Status Code (equal to PD)
- Batch Doc. Type Code (equal to A;C)
- Group ID (equal to V)

- Pharmacy ID (equal to 1750493664)
- TPL Amt Less than or Equal to (0)

## Extrapolation

OIG provided Medicine Man with an extrapolation detail file at the same time as the draft audit report. The extrapolation detail file contains information about the data and methods used to determine the overpayment in sufficient detail so the extrapolation results may be demonstrated to be statistically valid and are fully reproducible.

The extrapolation detail file contains the (a) population of claims, (b) sample frame, including sample size determination, (c) seed value for random number generation, (d) extrapolation validation, and (e) results printout from the RAT-STATS software. The populations used for extrapolation included in this audit consists of initial and refill claims with dispensing dates between March 1, 2014, and August 31, 2016. The estimated overpayment amount of \$88,120.04 was calculated by extrapolating the dollar value of the errors as identified in Appendix B across the appropriate population for initial fill or refill at the time of the draft report. The overpayment was calculated using the lower limit of a two-sided 80 percent confidence interval.

Medicine Man has been kept apprised of all aspects of the audit process and has been provided multiple opportunities to provide relevant documentation and information in order to ensure audit issues are accurate.

Opportunities to provide relevant documentation extend to the draft audit report stage. The draft audit report stage is the final opportunity for Medicine Man to provide additional relevant documentation, including sufficient evidence that would support the removal of identified errors on which the identified overpayment in this report is based. Errors were removed based on sufficient additional evidence being provided at the draft audit stage, the overpayment amount was recalculated and a new extrapolation amount is provided with the final audit report.

The Texas Legislature has recognized HHSC OIG's authority to utilize a peer-reviewed sampling and extrapolation process. HHSC OIG has formally adopted RAT-STATS software as the statistical software to be utilized for the extrapolation process, to be consistent with the Office of Inspector General for the United States Department of Health and Human Services. The Association of Inspectors General concluded a peer review of this process on January 7, 2016, and opined that OIG met all relevant policies, procedures, and AIG standards for the period under review.

**Appendix B: Recoupable Paid Claims Combined Populations**

The table below provides details about the claims filed and paid in error identified in Issue 1: Missing Medication Invoice.

Sample Number	Prescription Number	Fill Date	Claim Amount
RF-4		3/6/2014	\$ 189.91
OF-8		3/18/2014	25.33
RF-6		3/20/2014	27.94
OF-10		3/28/2014	14.34
RF-14		4/6/2014	27.94
OF-16		4/22/2014	11.00
RF-20		4/23/2014	12.62
OF-17		4/23/2014	13.33
RF-21		4/24/2014	44.06
OF-19		4/25/2014	28.53
RF-26		5/12/2014	81.34
OF-26		5/14/2014	21.66
RF-28		5/18/2014	17.36
OF-33		6/9/2014	19.19
RF-36		6/10/2014	95.47
RF-44		6/27/2014	20.30
RF-48		7/6/2014	18.27
RF-52		7/21/2014	13.40
RF-55		7/23/2014	32.62
OF-51		7/29/2014	46.30
RF-62		8/7/2014	14.58
OF-63		9/17/2014	216.05
OF-64		9/17/2014	210.57
RF-73		9/18/2014	372.26
RF-74		9/18/2014	277.20
OF-69		1/7/2015	210.57
RF-80		2/10/2015	297.05
RF-82		3/10/2015	177.45
OF-73		5/5/2015	175.78
OF-77		6/1/2015	1,000.30
OF-78		6/18/2015	210.57

Sample Number	Prescription Number	Fill Date	Claim Amount
RF-87	[REDACTED]	7/24/2015	30.13
Total			\$ 3,953.42

Source: *OIG Audit Division*

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## Appendix C: Report Team and Distribution

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### Report Team

The OIG staff members who contributed to this audit report include:

- David Griffith, CPA, CIA, CGFM, Deputy IG for Audit
- Kacy J. VerColen, CPA, Audit Director
- Lisa Kanette Blomberg, CPA, Audit Manager
- Maria M. Johnson, CFE, Audit Project Manager
- Melissa Stice Larson, CIA, CISA, CFE, HCISPP, IT Audit Manager
- Carol Barnes, CIGA, Staff Auditor
- TiAnna Riddick, Associate Auditor
- Mo Brantley, Senior Audit Operations Analyst

### OIG Support

- Rolando Delgado, Data Intelligence Analyst

### Report Distribution

#### Health and Human Services

- Dr. Courtney N. Phillips, Executive Commissioner
- Cecile Erwin Young, Chief Deputy Executive Commissioner
- Victoria Ford, Chief Policy Officer
- Karen Ray, Chief Counsel
- Nicole Guerrero, Director of Internal Audit
- Stephanie Muth, State Medicaid Director, Medicaid and CHIP Services
- Katherine Scheib, Deputy Associate Commissioner, Medicaid and CHIP Services
- Gina Marie Muniz, Director, Vendor Drug Program, Medicaid and CHIP Services
- Priscilla Parrilla, Director, Pharmacy Operations, Vendor Drug Program

- Kimberly Royal, Manager, Contract Compliance and Performance Management, Medicaid and CHIP Services

Medicine Man

- Marilyn Elkins, Pharmacist-in-Charge



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## **Appendix D:  OIG Mission, Leadership, and Contact Information**

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The mission of OIG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of OIG’s mission and statutory responsibility includes:

- Sylvia Hernandez Kauffman, Inspector General
- Susan Biles, Chief of Staff
- Dirk Johnson, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Olga Rodriguez, Chief of Strategy and Audit
- Quinton Arnold, Chief of Inspections and Investigations
- Steve Johnson, Interim Chief of Medicaid Program Integrity

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- Mail: Texas Health and Human Services Commission  
Office of Inspector General  
P.O. Box 85200  
Austin, Texas 78708-5200
- Phone: 512-491-2000