



Office of Inspector General

Texas Health and Human Services Commission

Stuart W. Bowen Jr., Inspector General

Performance Audit Report

Dow Pharmacy

January 4, 2016

IG Report No. 14-35-144158-VD-01

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EXECUTIVE SUMMARY

The Health and Human Services Commission (HHSC), Office of Inspector General (IG) Audit Section, has completed its performance audit of Dow Pharmacy (Vendor), vendor number 144158, as specified in the Texas Administrative Code (TAC), Title 1, Part 15, Chapter 354, Subchapter F, Division 5, Section 354.1891.

Objectives

The objectives of the audit were to determine if the Vendor accurately billed the Texas Medicaid Vendor Drug Program (VDP) and complied with contractual requirements and the TAC rules.

Background

As part of the Texas Medical Assistance Program operated in accordance with the Title XIX of the Social Security Act, the VDP provides statewide outpatient pharmaceutical services to eligible recipients. Pharmaceutical services include the preparation, packaging, compounding, and labeling of covered legend and nonlegend drugs that appear in the latest revision of the Texas Drug Code Index. Contracted pharmacies and pharmacists provide the pharmaceutical services, and submit claims for reimbursement, to the HHSC through an electronic adjudication system. Payments made to the Vendor during the audit period reviewed totaled \$1,712,909.10.

Summary of Scope and Methodology

The engagement covered the period September 1, 2009 through February 29, 2012, and included obtaining an understanding of internal controls limited to the objectives described above. Additionally, IG examined pharmacy prescriptions, daily logs, and other applicable accounting records that supported the claims submitted for reimbursement. For sampling methodology, see Appendix B.

IG conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that IG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. IG believes the evidence obtained provides reasonable basis for the findings and conclusions based on the audit objectives.

Conclusions

The Vendor materially billed the Texas Medicaid Vendor Drug Program accurately and complied with contractual requirements and the TAC rules.

DETAILED FINDINGS

Invalid Claims: Non Tamper-Resistant Prescriptions for Eight Claims

The Vendor dispensed medication for eight prescriptions written on non tamper-resistant prescription paper. The Vendor did not secure verification of the prescriptions from the prescribing physician. Dispensing medication on an invalid prescription results in an overpayment of Medicaid funds. Texas Administrative Code, Title 1, Part 15, Chapter 354, Subchapter F, Division 4, Rule §354.1863(c) states "...prescriptions for covered pharmaceuticals submitted to a pharmacy in written form will be eligible for payment only if the prescription is executed on tamper-resistant prescription paper, as required by §1903(i)(23) of the Social Security Act (42 U.S.C. §1936b(i)(23))."

Recommendation

The Vendor should comply with the TAC requirement in submitting eligible claims for payment. Prescriptions in written form are eligible for payment only when they are executed on tamper-resistant prescription paper.

Management's Response

"We respectfully agree with the findings and have rectified in the pharmacy practice to secure a valid prescription on tamper-resistant prescription paper and with date written before executing and dispensing as required by law.

Invalid Claims: Prescriptions Not Dated For Two Claims

The Vendor dispensed medication for two prescriptions that were not dated. Vendor did not obtain dated prescriptions for these claims, and the Vendor did not secure date of prescriptions verification from the prescribing physician. Dispensing medication on an invalid claim results in overpayment of Medicaid funds. The Texas Administrative Code (TAC) requires this information be provided on each prescription. The TAC, Title 22, Part 15, Chapter 291, Subchapter B, Rule §291.34(7)(A) states, "...Each original medication order shall bear the following information.. (viii) the date; and..."

Recommendation

The Vendor should ensure that prescriptions contain all the necessary information, including prescription date, as required by Texas State Board of Pharmacy and Medicaid Rules.

Management's Response

"We respectfully agree with the findings and have rectified in the pharmacy practice to secure a valid prescription on tamper-resistant prescription paper and with date written before executing and dispensing as required by law.

Additional Management Response

“Please reconsider and lower the amount of recoupment \$7,593.00 (Table A – Total Population Paid and Recoupment Statistics Low Dollar) based on the RAT-STATs methodology and extrapolation formula used.”

Auditor’s Follow-up Comment

In FY2015 IG changed our extrapolation method to RAT-STATS. RAT-STATS is widely used and supported by both CMS and federal OIG organizations. At this time the recoupment amount of \$7,593 will not be reconsidered.

APPENDICES

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of the audit were to determine if the Vendor accurately billed the Texas Medicaid VDP and complied with contractual requirements and the TAC rules.

Scope

The engagement covered the period of September 1, 2009 through February 29, 2012. During the engagement, IG did not review all internal controls. IG limited the internal control review to the objectives described above.

Methodology

An engagement letter was issued to the Vendor outlining the understanding of the IG with respect to the audit of paid claims submitted by the Vendor for reimbursement. To obtain an understanding of the Vendor's internal controls, an internal control questionnaire was completed and observations were made throughout the audit. Additionally, IG examined prescriptions, daily logs, and other applicable accounting records that supported the claims submitted for reimbursement. Professional judgment was exercised in planning, executing, and reporting the results of our audit.

Criteria Used to Determine Compliance with Contractual Requirements and the TAC

- Texas Administrative Code, Title 1, Part 15, Chapter 354, Subchapter F, Divisions 1 through 7, Sections 354.1801 through 354.1928; Chapter 355, Subchapter J, Division 28
- Texas Vendor Drug Contract for Dow Pharmacy
- Vendor Drug Program Pharmacy Provider Handbook, March 1, 2006
- Texas Drug Code Index
- Texas State Board of Pharmacy rules and regulations
- Health and Safety Code, Title 6, Subtitle C, Chapter 481, Subchapter A
- Revisions and updates to the aforementioned materials and information
- Notices or bulletins issued by the VDP concerning Medicaid pharmaceutical drug benefits

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Other Information

Fieldwork was conducted from August 18, 2014 through September 10, 2014.

SAMPLING METHODOLOGY

Summary of Sample Methodology

IG used statistically valid random sampling to determine the extent to which the Vendor correctly billed the VDP for Medicaid prescription claims. IG conducted its sampling methodology in accordance with guidance from CMS Medicare Program Integrity Manual Chapter 8 - Administrative Actions and Statistical Sampling for Overpayment Estimates and guidance issued by the American Institute of Certified Public Accountants and Statement on Auditing Standards (SAS), Number 39. To determine the final extrapolated recoupment amount owed by the Vendor, IG utilized RAT-STATs Stratified Variable Appraisal functionality to evaluate the results of the samples. In order to ensure proper evaluation of the entire population, IG broke the population into two groups; a population for low dollar transactions and a population for high dollar transactions. Each population was then split into 13 strata. Sample sizes were calculated for each stratum in each population group. In any stratum containing only a single sample item, extrapolation was excluded for that stratum and any errors were calculated on a dollar-for-dollar basis. The results for the low and high dollar populations can be found in Tables A and B respectively.

Sampling Frame

The sampling frame (population) was the Vendor's claims paid by the HHSC that had a "Date of Service" in the audit period of September 1, 2009 through February 29, 2012. The low dollar sample frame consisted of all paid claims less than or equal to \$263.39. The high dollar sample frame consisted of all paid claims greater than or equal to \$265.02.

Sample Unit

The sample unit was a paid claim. A paid claim is a prescription dispensed to a Medicaid recipient by a contracted Vendor or Pharmacist for which the HHSC paid the Vendor and the "Date of Service" was in the audit period of September 1, 2009 through February 29, 2012.

Results

To achieve valid sampling results, the population was separated into low and high dollar claims. To estimate the potential dollar value of billing errors, IG tested 265 claims, of which ten constituted findings. Of the 265 claims randomly tested, 153 were in the low dollar population, and 112 claims were in the medium dollar population. Of the ten findings, seven were from the low dollar claims, and three were from the high dollar claims. The findings for low dollar and high dollar claims were categorized in two parts, a dollar-for-dollar population and an extrapolated population. The low dollar tested claims consisted of four dollar-for-dollar tested claims from the dollar-for-dollar population, and 149 randomly sampled claims from the extrapolated population. The high dollar tested claims consisted of one dollar-for-dollar tested

APPENDIX B (cont.)

claim from the dollar-for-dollar population, and 111 randomly sampled claims from the extrapolated population. The total recoupment amounts for low dollar claims and high dollar claims were calculated to be \$7,593.00 and \$43.00 respectively. This resulted in a total combined recoupment amount of \$7,636.00. See Table A for \$7,593.00 and Appendix C for \$43.00. The \$43.00 amount is higher than the extrapolated amount of \$31.00 shown on Table B, therefore the higher amount is used.

During the engagement, IG identified the following instances of noncompliance for the claims:

Finding Type	Low Dollar Findings	High Dollar Findings	Total Findings
Invalid Claims:			
Non Tamper Resistant Prescription	6	2	8
Prescription Not Dated	1	1	2
Total	7	3	10

See the Detailed Findings section of this report for details.

APPENDIX B (cont.)

Table A

Total Population Paid and Recoupment Statistics (Low Dollar)

Total Paid Dollar Amount in Extrapolation Population	\$1,364,970.11
Total Paid Dollar Amount in Dollar-For-Dollar Population	\$225,459.47
Total Population Paid Dollar Amount	<u>\$1,590,429.58</u>
Total Recoupment Amount from Extrapolation Population Using RAT-STATs 2007	\$7,593.00
Stratified Variable Appraisal (Calculated at lower limit of 90% confidence interval)	
Total Recoupment Amount from Dollar-For-Dollar Population	\$0.00
Total Population Recoupment Amount	<u>\$7,593.00</u>

Table B

Total Population Paid and Recoupment Statistics (High Dollar)

Total Paid Dollar Amount in Extrapolation Population	\$121,375.59
Total Paid Dollar Amount in Dollar-For-Dollar Population	\$1,103.93
Total Population Paid Dollar Amount	<u>\$122,479.52</u>
Total Recoupment Amount from Extrapolation Population Using RAT-STATs 2007	\$31.00
Stratified Variable Appraisal (Calculated at lower limit of 90% confidence interval)	
Total Recoupment Amount from Dollar-For-Dollar Population	\$0.00
Total Population Recoupment Amount	<u>\$31.00</u>

APPENDIX C

**Schedule of Findings
Dow Pharmacy
Vendor Number: 144158
Over/Under Payments for Low Dollar Claims**

Client Number	Prescription Number	Fill Date	Amount Paid	Audited Cost	Over/(Under) Payments	Comments
			\$98.70	\$89.23	\$9.47	Prescription Not Dated
		Sub Total	\$98.70	\$89.23	\$9.47	
			\$16.70	\$8.95	\$7.75	Non Tamper-Resistant Prescription
			10.17	2.63	7.54	Non Tamper-Resistant Prescription
			12.42	4.76	7.66	Non Tamper-Resistant Prescription
			10.04	2.51	7.53	Non Tamper-Resistant Prescription
			29.55	21.55	8.00	Non Tamper-Resistant Prescription
			119.25	109.36	9.89	Non Tamper-Resistant Prescription
		Sub Total	\$198.13	\$149.76	\$48.37	
		Total	\$296.83	\$238.99	\$57.84	

**Schedule of Findings
Dow Pharmacy
Vendor Number: 144158
Over/Under Payments for High Dollar Claims**

Client Number	Prescription Number	Fill Date	Amount Paid	Audited Cost	Over/(Under) Payments	Comments
██████	██████	██████	\$369.25	\$355.52	\$13.73	Prescription Not Dated
		Sub Total	\$369.25	\$355.52	\$13.73	
██████	██████	██████	\$380.21	\$365.26	\$14.95	Non Tamper-Resistant Prescription
			356.02	341.70	14.32	Non Tamper-Resistant Prescription
		Sub Total	\$736.23	\$706.96	\$29.27	
		Total	\$1,105.48	\$1,062.48	\$43.00	

REPORT DISTRIBUTION

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