TEXAS HEALTH AND HUMAN SERVICES COMMISSION

OFFICE OF INSPECTOR GENERAL

AUDIT OF PHARMACY ALTERNATIVES

A Texas Vendor Drug Program Provider

April 25, 2019
OIG Report No. AUD-19-014

HHSC OIG
TEXAS HEALTH AND HUMAN SERVICES COMMISSION
OFFICE OF INSPECTOR GENERAL

April 25, 2019

AUDIT OF PHARMACY ALTERNATIVES

A Texas Vendor Drug Program Provider

WHY THE OIG CONDUCTED THIS AUDIT

The objectives of this audit were to determine whether Pharmacy Alternatives (a) properly billed the Texas Vendor Drug Program (VDP) for Medicaid claims submitted and (b) complied with selected contractual and Texas Administrative Code (TAC) requirements.

Pharmacy Alternatives processed 118,560 Texas Medicaid claims for prescriptions through VDP during the audit period of May 1, 2013, through August 31, 2015. These claims resulted in the pharmacy receiving reimbursements of $10.8 million from Texas Medicaid.

WHAT THE OIG RECOMMENDS

Pharmacy Alternatives should ensure (a) it retains and provides documentation as required, (b) prescriptions are signed by the prescriber prior to dispensing medication and billing VDP, (c) all claims contain the correct prescriber identification number, (d) any changes in medication quantity dispensed are properly authorized by the prescriber and documented prior to dispensing, (e) refills are authorized by the prescribing physician and documented prior to dispensing, and (f) refill claims submitted for reimbursement by VDP contain the correct fill number.

Based on issues identified in this audit, Pharmacy Alternatives owes the State of Texas $264,021.81.

For more information, contact:
OIG.AuditDivision@hhsc.state.tx.us

WHAT THE OIG FOUND

The OIG Audit Division used two populations of paid claims, with service dates ranging from May 1, 2013, through August 31, 2015, 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 120 initial fill claims and one sample contained 111 refill claims, for a total of 231 claims. Any overpayments identified during testing of the initial fill sample were subject to repayment on a dollar-for-dollar basis. Any overpayments identified during testing of the refill sample were subject to repayment on an extrapolated basis.

Pharmacy Alternatives complied with TAC and contract provisions related to controlled substances, warehouse billing, and acquisition cost. Information technology general controls were adequate, and the data used to form audit conclusions was reliable.

There were exceptions related to claims validity, National Drug Code usage, quantity, and refills. Some claims had more than one exception and were included in more than one issue in this report. When calculating the error rate and the extrapolation value, each claim was only counted as an error once.

Of the 231 claims tested, there were 75 unsupported claims. Of the 75 unsupported claims, 5 claims had more than one error, resulting in a total of 80 errors. The unsupported claims represent overpayments to Pharmacy Alternatives. Results indicated:

- A dollar-for-dollar overpayment amount of $7,083.60 for 16 unsupported claims identified in the sample of initial fill claims.
- An extrapolated overpayment amount of $256,938.21 for 59 unsupported claims identified in the sample of refill claims.

There were also errors for 75 claims that may be subject to the assessment of penalties. Of these 75 claims, 62 claims were not already identified as an exception in another issue of this report.

Pharmacy Alternatives provided management responses and additional documentation Pharmacy Alternatives believed would remove the issues in the draft report. These responses are included in the report following the recommendations. The OIG Audit Division reviewed the additional documentation provided by Pharmacy Alternatives and was able to remove and revise issues 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.

TABLE OF CONTENTS

INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Audit Division has completed an audit of Pharmacy Alternatives, LLC (Pharmacy Alternatives), a Texas Vendor Drug Program (VDP) provider.

NPI Number: 1508877150

License Number: 25077

Address: 5810 Trade Center Drive, Suite 400
Austin, TX 78744

Pharmacy Alternatives processed 118,560 Medicaid claims for dispensed prescriptions through VDP during the audit period, for which it received reimbursements of $10.8 million.

Objectives and Scope

The objectives of the audit were to determine whether Pharmacy Alternatives (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 May 1, 2013, through August 31, 2015, as well as a review of relevant activities, internal controls, and information technology (IT) general controls through the end of fieldwork in September 2018.

Methodology

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

- Supporting documentation for a sample of all claims billed to VDP during the audit scope
- Pharmacy Alternatives' policies and procedures
- IT general controls involving the Frameworks, LTC

The OIG Audit Division used two populations of paid claims, with service dates ranging from May 1, 2013, through August 31, 2015, 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 120 initial fill claims and one sample contained 111 refill claims, for a total of 231 claims. Any

overpayments identified during testing of the initial fill sample will be subject to repayment on a dollar-for-dollar basis. Any overpayments identified during testing of the refill sample will be subject to repayment on an extrapolated basis.

For the claims contained in the initial fill sample and the refill sample, the OIG Audit Division tested Pharmacy Alternatives' compliance in seven 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, (f) warehouse billing, and (g) 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 June 19, 2018, to Pharmacy Alternatives providing information about the upcoming audit, and conducted fieldwork at the Austin, Texas, facility from June 20 through 25, 2018. The OIG Audit Division presented the audit results, issues, and recommendations to Pharmacy Alternatives in a draft report on January 22, 2019.

Pharmacy Alternatives provided management responses and additional documentation Pharmacy Alternatives believed would remove the issues in the draft report. These responses are included in the report following the recommendations. The OIG Audit Division reviewed the additional documentation provided by Pharmacy Alternatives and was able to remove and revise issues 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 §354.1835 (2002)
- 1 Tex. Admin. Code § 354.1863(b) (2008)
- 1 Tex. Admin. Code § 354.1867 (2010)
- 1 Tex. Admin. Code § 354.1901(b) (2003 through 2013)
- 22 Tex. Admin. Code § 291.34(b)(5)(A) (2012) and 22 Tex. Admin. Code § 291.34(b)(6)(A) (2013 through 2014)
- 22 Tex. Admin. Code 291.34(b)(7)(A) (2012) and 22 Tex. Admin. Code § 291.34(b)(8)(A)(i) (2013 through 2014)

- 22 Tex. Admin. Code § 291.34(b)(8)(F) 2013, through 2014).
- Texas VDP Pharmacy Provider Procedure Manual, "Refills" § 4.3.5 (2011) and § 5.3.5 (2014)
- Vendor Drug Program Pharmacy Provider Contract #145682 (2006)

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

Pharmacy Alternatives complied with TAC and contract provisions related to controlled substances, warehouse billing, and acquisition cost. IT general controls were adequate, and the data used to form audit conclusions was reliable.

There were exceptions related to claims validity, NDC usage, quantity, and refills. Details of these exceptions are included in the sections that follow. One claim may have more than one exception and be included in more than one finding in this report. When calculating the error rate and the extrapolation value, each claim is only counted as an error once.

Of the 231 claims tested, there were 75 unsupported claims. Of the 75 unsupported claims, 5 claims had more than one error, resulting in a total of 80 errors. The unsupported claims represent overpayments to Pharmacy Alternatives. Results indicated:

- A dollar-for-dollar overpayment amount of $7,083.60 for 16 unsupported claims identified in the sample of initial fill claims. See Appendix B for details about these claims.

- An extrapolated overpayment amount of $256,938.21 for 59 unsupported claims identified in the sample of refill claims. See Appendix C for details about these claims.

There were also errors for 75 claims that may be subject to the assessment of penalties. See Appendix D for details about these claims.

CLAIMS VALIDITY

VDP participating pharmacies are contractually required to maintain documents to support Medicaid claims. Claims validity is demonstrated by documentation maintained by the pharmacy. In consideration for payment under the VDP contract, participating pharmacies must comply with all applicable laws, rules, and regulations, including Pharmacy Board rules and regulations in effect at the time the prescription is serviced.[1] According to Pharmacy Board rules, a prescription or a physician order must contain several elements in order to be valid, including (a) name of the patient, (b) address of the patient, (c) name, address, and telephone number of the practitioner at the practitioner's usual place of business, (d) name and strength of the drug prescribed, (e) quantity prescribed, (f) intended use for the

[1] Texas State Board of Pharmacy rules are published in 22 Tex. Admin. Code, Part 15.

drug unless the practitioner determines the furnishing of this information is not in the best interest of the patient, and (g) date of issuance.[2]

If the pharmacy (a) does not maintain or cannot produce documents to support the dispensing of the medication or (b) if any of the required elements are not documented on the face of the prescription or physician order, then the related claim is invalid and not eligible for reimbursement by VDP. Relevant criteria follow.

1 Tex. Admin. Code §354.1835 (May 24, 2002) provides, "Vendors must enter the identification number of the prescriber, as listed with the appropriate medical specialty board, on each claim."

1 Tex. Admin. Code§ 354.1863(b) (Sept. 23, 2008) provides, "A signed prescription must be maintained in the dispenser's file and available for audit at any reasonable time. The name of the prescriber and the signature of the dispensing pharmacist must be documented."

Vendor Drug Program Pharmacy Provider Contract #145682, Part 2(G) (Aug. 7, 2006) provides, "The Provider agrees that information contained in all claims data submitted by or on behalf of the Provider: (1.) Is true, complete, and accurate."

Vendor Drug Program Pharmacy Provider Contract #145682, Part 2, (H)(1) (Aug. 7, 2006) states, "The Provider will comply with all Texas and federal laws that regulate fraud, abuse, and waste in health care and the Medicaid and Vendor Drug Programs. This includes, without limitation, the following obligations:
1. 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; (b) Any other records pertinent to the services for which a claim was submitted, or the claims presented for payment for such services; and (c) All other records required to be maintained by HHSC's standards of participation in the Vendor Drug Program."

Vendor Drug Program Pharmacy Provider Contract #145682, Part 2, (I) (Aug. 7, 2006) provides, "The records and documents referenced in Part 2, Subparts H(1-2) of this Contract must be retained for a minimum of five years from the Date of Service."

[2] 22 Tex. Admin. Code § 291.34(b)(6)(A) (June 7, 2012) and 22 Tex. Admin. Code § 291.34(b)(7)(A) (Sept. 8, 2013, through Dec. 7, 2014).

Issue 1: Missing Supporting Documentation

Pharmacy Alternatives did not provide supporting documentation for medication it dispensed and billed to VDP. Of the 120 claims tested for the initial fill population, there was no supporting documentation for 7 claims. Of the 111 refill claims tested for the refill population, there was no supporting documentation for 53 claims.

Pharmacy Alternatives did not follow TAC and contract guidelines, which require pharmacies to maintain prescriptions as supporting documentation for VDP claims. Since Pharmacy Alternatives was unable to produce prescriptions for these claims, VDP reimbursed Pharmacy Alternatives $3,064.86 for 7 unsupported initial fill claims. See Appendix B for details about these claims.

VDP also reimbursed Pharmacy Alternatives $68,813.78 for 53 unsupported refill claims. When a client's prescription is due for a refill, based on the date it was last filled, Pharmacy Alternatives sends the nursing facility a document listing the medications due for refill for the client, requesting confirmation the medication is still needed. If the nursing facility responds indicating the medication is not needed, a refill will not be sent to the nursing facility. However, if Pharmacy Alternatives receives no response from the nursing facility, a refill will automatically be sent. This practice is allowed by the Board of Pharmacy,[3] however, it is not allowed by VDP policies and procedures.[4] See Appendix C for details about these claims.

Pharmacies are paid a professional dispensing fee as compensation for the administrative effort required to fill a Medicaid prescription. The basis of this finding is that Pharmacy Alternatives did not follow VDP rules when it auto-filled refills for the 53 claims identified. Recognizing that Pharmacy Board rules allow this practice, beginning on September 8, 2013, but Medicaid rules do not allow auto-filling, the OIG only identified for recoupment the professional dispensing fees of $1,398.81 for 44 claims. The remaining 9 claims were auto-refilled prior to September 8, 2013, and are identified for recoupment at the full reimbursement amount of $12,025.27. All 53 claims are subject to extrapolation and recoupment.

[3] 22 Tex. Admin. Code § 291.34(b)(8)(F) (Sept. 8, 2013, through Dec. 7, 2014).

[4] Texas VDP Pharmacy Provider Procedure Manual, "Refills" § 4.3.5 (Dec. 2011) and § 5.3.5 (Feb. 2014).

Recommendation 1

Pharmacy Alternatives should:

- Ensure all claim records are (a) maintained for at least five years and (b) supplied within a reasonable amount of time after requested.

- Return the overpayment amount of $3,064.86 to the State of Texas for the 7 initial fill paid claims for which it was unable to produce a prescription.

Management Response

Action Plan

Pharmacy Alternatives will continue to maintain electronic and hard copy records for said period of time and provide them within a reasonable time period.

Responsible Manager

Director of Pharmacy

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 1 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The documentation was sufficient to clear 6 refill claims, reducing the number of exceptions to 53, but was not sufficient to clear the remaining exceptions.

Issue 2: Prescriptions Not Signed

Pharmacy Alternatives dispensed and billed VDP for prescriptions that did not have a prescriber signature. Of the 120 claims tested for the initial fill population, there was no prescriber signature on the prescription for 2 claims.

Pharmacy Alternatives did not follow TAC and contract guidelines, which require VDP claims to be paid only when supported by a prescription signed by the prescriber. As a result, VDP reimbursed Pharmacy Alternatives $1,222.85 for 2 unsupported initial fill claims. See Appendix B for details about these claims.

Recommendation 2

Pharmacy Alternatives should:

- Ensure prescriptions are signed by the prescriber prior to dispensing medication and billing VDP.
- Return the overpayment amount of $1,222.85 to the State of Texas for the 2 initial fill paid claims for which it was unable to produce a prescription signed by the prescriber.

Management Response

Action Plan

Pharmacy Alternatives will continue current policy of accepting only signed prescriptions for dispensing medication and billing VDP.

Responsible Manager

Director of Pharmacy

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 2 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The additional documentation provided was not sufficient to clear the exceptions. The prescriptions were not signed by the physician.

Issue 3: Incorrect Prescriber Identification Numbers

Pharmacy Alternatives dispensed and billed VDP for prescriptions with a prescriber identification number that was not associated with the physician who signed the prescription. Of the 120 claims tested for the initial fill population, the wrong prescriber identification number was used for 6 claims. Of the 111 claims tested for the refill population, the wrong prescriber identification number was used for one claim.

Pharmacy Alternatives did not follow TAC and contract guidelines, which require VDP claims to be paid only when the prescriber number is associated with the

physician who signs a prescription. As a result, VDP reimbursed Pharmacy Alternatives $2,777.26 for 6 initial fill claims submitted with an incorrect prescriber identification number. See Appendix B for details about these claims.

VDP also reimbursed Pharmacy Alternatives $634.53 for one refill claim submitted with an incorrect prescriber identification number. Of this amount, $18.93 was identified in the dispensing fees identified in Issue 1. The remaining amount of $615.60 is subject to extrapolation. See Appendix C for details about this claim.

Recommendation 3

Pharmacy Alternatives should:

- Ensure that all claims it submits to VDP for reimbursement contain a prescriber identification number associated with the physician who signed the prescription.

- Return the overpayment amount of $2,777.26 to the State of Texas for the 6 initial fill paid claims for which it used the incorrect provider identification number.

Management Response

Action Plan

Pharmacy Alternatives will ensure that the proper physician is entered when billing VDP.

Responsible Manager

Director of Pharmacy

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 3 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The additional documentation provided did not clear the exceptions as they are for incorrect prescriber numbers.

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 #145682, Part 2 (H)(1) (Aug. 7, 2006) 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."

Issue 4: Missing Medication Invoice

Pharmacy Alternatives dispensed and billed VDP for an initial fill claim that had an invoice with a purchase date after the date the medication was dispensed. Of the 120 claims tested for the initial fill population, there was no evidence of an invoice with a date prior to the dispensing date for one claim.

Pharmacy Alternatives did not follow TAC and contract guidelines, which require pharmacies to maintain all records related to prescription services, including medication invoices, for all VDP claims. As a result, VDP reimbursed Pharmacy Alternatives $18.63 for one unsupported initial fill claims. See Appendix B for details about this claim.

Recommendation 4

Pharmacy Alternatives should:

- Maintain all records related to prescription services, including medication invoices.
- Return the overpayment amount of $18.63 to the State of Texas for the initial fill paid claim for which it was unable to produce an invoice dated before the date the medication was dispensed.

Management Response

Action Plan

Pharmacy Alternatives will continue to maintain both hard copy and electronically retrievable invoice records.

Responsible Manager

Director of Pharmacy

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 4 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The additional documentation provided was not sufficient to clear the exception. The invoice provided for this prescription was dated after the medication was dispensed.

QUANTITY

Pharmacists may dispense a different quantity of medication than ordered by the prescribing physician as long as the prescribing physician is contacted and authorizes the change, which must be documented by the pharmacy. Quantity changes made to comply with Medicaid limitations for reimbursement purposes do not override the pharmacist's obligation to obtain the prescriber's authorization for quantity changes. Relevant criteria follow.

22 Tex. Admin. Code § 291.34(b)(5)(A) (Mar. 13, 2012) and *22 Tex. Admin. Code § 291.34(b)(6)(A) (Sept. 8, 2013, through Dec. 7, 2014)* provide, "Original prescriptions may be dispensed only in accordance with the prescriber's authorization as indicated on the original prescription drug order including clarifications to the order given to the pharmacist by the practitioner or the practitioner's agent and recorded on the prescription."

Issue 5: Incorrect Medication Quantities

Pharmacy Alternatives dispensed and billed VDP for a different quantity of medication than was ordered, without documented authorization from the prescribing physician. Of the 111 refill claims tested for the refill population, there was no evidence that a change in quantity was properly authorized by the prescribing physician for two claims.

Pharmacy Alternatives did not follow TAC and contract guidelines, which require VDP claims to be paid only when changes in quantity are properly authorized by the prescribing physician and documented prior to dispensing. As a result, VDP reimbursed Pharmacy Alternatives $1,158.13 for two unsupported refill claims.

See Appendix C for details about these claims. Of this amount, $16.60 was included in the dispensing fees identified in Issue 1. For the remaining claim, the dispensing fee amount of $19.09 is subject to extrapolation and recoupment.

TAC states "original prescriptions may be dispensed only in accordance with the prescriber's authorization as indicated on the original prescription drug order including clarifications to the order given to the pharmacist by the practitioner or the practitioner's agent and recorded on the prescription."[5]

However, in general practice and with approval of the Pharmacy Board, pharmacists only need to obtain the prescriber's authorization when dispensing a quantity greater than the quantity indicated on the face of the prescription, not when dispensing less. According to a letter received from the executive director of the Pharmacy Board dated February 20, 2018, "the Board will be considering amending its rules to clarify that a pharmacist may dispense less than prescribed at the request of the patient or the patient's agent at a future Board meeting."

Pharmacies are paid a professional dispensing fee as compensation for the administrative effort required to fill a Medicaid prescription. The basis of this finding is that Pharmacy Alternatives did not follow TAC or VDP rules when processing claims identified. The Pharmacy Board's acceptance of the general practice by pharmacies to contact the prescriber only when dispensing over the prescribed amount is not acceptable to VDP. In recognition of this, the OIG determined the professional dispensing fees are recoupable.

Recommendation 5

Pharmacy Alternatives should ensure that any changes in the quantity dispensed from the quantity prescribed are authorized by the prescribing physician and documented prior to dispensing.

Management Response

Action Plan

Pharmacy Alternatives will continue to document any changes to quantities dispensed prior to dispensing the medication.

Responsible Manager

Director of Pharmacy

[5] 22 Tex. Admin. Code § 291.34(b)(5)(A) (Mar. 13, 2012, through Sept. 7, 2013), and 22 Tex. Admin. Code § 291.34(b)(6)(A) (Sept. 8, 2013, through Dec. 7, 2014).

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 5 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The additional documentation provided was not sufficient to clear the exceptions. The quantity dispensed was unauthorized.

REFILLS

TAC requires explicit authorization from the prescribing physician for medication refills.[6] On the original prescription, the physician may authorize no refills or designate the number of refills allowed. Dispensing a refill without authorization or without maintaining documentation is a refill error and not eligible for reimbursement. Prescription refills must be properly authorized to prevent overmedication of patients and waste, fraud, or abuse. Relevant criteria follow.

Pursuant to Texas Human Resources Code, "A person commits a violation if the person: … fails to maintain documentation to support a claim for payment in accordance with the requirements specified by commission rule or medical assistance program policy or engages in any other conduct that a commission rule has defined as a violation of the medical assistance program."[7]

The Texas Human Resources Code also provides, "A person who commits a violation … is liable to the commission for either the amount paid in response to the claim for payment or the payment of an administrative penalty in an amount not to exceed $500 for each violation, as determined by the commission."[8]

1 Tex. Admin. Code § 354.1867 (June 9, 2010) provides, "All refills are counted when determining compliance with the authorized refill limitation. In the absence of specific refill instructions, the prescription must be interpreted as not refillable. If a prescription notes specific refill instructions, any future dispensing's must be considered refills of the original prescription, unless the prescriber has been contacted for authorization to dispense a new supply of medication. If authorization is granted, a new and separate prescription is prepared."

22 Tex. Admin. Code 291.34(b)(7)(A) (June 7, 2012) and *22 Tex. Admin. Code § 291.34(b)(8)(A)(i) (Sept. 8, 2013, through Dec. 7, 2014)* provide, "Refills may be

[6] 1 Tex. Admin. Code § 354.1867 (June 9, 2010).

[7] Tex. Hum. Res. Code § 32.039 (b)(3) (Sept. 1, 2011, and Apr. 2, 2015).

[8] Tex. Hum. Res. Code § 32.039 (b-1) (Sept. 1, 2011, and Apr. 2, 2015).

dispensed only in accordance with the prescriber's authorization as indicated on the original prescription drug order except as authorized in [the] paragraph … of this subsection relating to accelerated refills."

Vendor Drug Program Pharmacy Provider Contract #145682, Part 2 (G)(1) (Aug. 7, 2006) provides, "The Provider agrees that information contained in all claims data submitted by or on behalf of the Provider: (1). Is true, complete and accurate."

Issue 6: Unauthorized Refills

Pharmacy Alternatives dispensed and billed VDP for medication refills that were not authorized. Of the 111 refill claims tested for the refill population, there was no evidence that refills were authorized for 8 claims.

Pharmacy Alternatives did not follow TAC and contract guidelines, which require VDP claims to be paid only when refills are authorized on a prescription or authorization is obtained from the prescribing physician and documented prior to dispensing a refill. As a result, VDP reimbursed Pharmacy Alternatives $8,592.19 for 8 unsupported refill claims. See Appendix C for details about these claims. Of this amount, $67.73 was included in the dispensing fees identified in Issue 1. The remaining amount of $8,524.46 for the 8 unsupported claims is subject to extrapolation and recoupment.

Recommendation 6

Pharmacy Alternatives should ensure refills are authorized on a prescription or obtain authorization from the prescribing physician prior to dispensing a refill.

Management Response

Action Plan

Pharmacy Alternatives will continue our process of accurate data entry of number of refills, and in the case of no refills will contact the physician for more refills prior to dispensing.

Responsible Manager

Director of Pharmacy

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 6 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The additional documentation provided was not sufficient to clear the exceptions. The refills were not authorized on the original prescription.

Issue 7: Refills Billed as Initial Fills

Pharmacy Alternatives assigned new prescription numbers to refills it dispensed and submitted the claim with a refill number of zero, which indicated an initial fill. Of the 120 claims tested for the initial fill population, 75 refill claims were billed with a refill number zero, making the refill appear to be an initial fill.

Pharmacy Alternatives did not follow contract requirements, which require pharmacies to submit true and accurate claims information. As a result, VDP reimbursed Pharmacy Alternatives $48,783.64 for 75 refill claims reported as initial fill claims. Of these 75 claims, 62 claims were not already identified as an exception in another issue of this report. For these 62 claims, VDP reimbursed Pharmacy Alternatives $43,034.47. See Appendix D for details about these claims.

These errors do not invalidate the authorization for dispensed medications. These errors may be subject to the assessment of penalties.

Recommendation 7

Pharmacy Alternatives should ensure that all refill claims it submits to VDP for reimbursement contain the prescription number used for the initial fill.

Management Response

Action Plan

To address this, Pharmacy Alternatives must first provide background about the software system it uses: Framework LTC. The way that Framework, LTC software was designed for long term care facilities, it reflected quantity remaining. The refill function was initially for retail dispensing of prescriptions without the need for producing medication administration records, treatment administration records and physician orders for the clients that Pharmacy Alternatives served. There are two numbers in framework that identify each prescription. The prescription number changes with every fill, the reorder number is static.

Responsible Manager

Director of Pharmacy

Target Implementation Date

In effect

Auditor Comment

Along with its management response to Issue 7 in the draft audit report, Pharmacy Alternatives submitted additional documentation it indicated would clear these exceptions. The claim information submitted to VDP contained incorrect fill numbers. The additional documentation provided by Pharmacy Alternatives also indicated that VDP requested the correct refill numbers to be submitted on the claims in January 2013. The OIG Audit Division notes that Pharmacy Alternatives was apparently working to correct the issue, however, there is no indication of when the issue was corrected. The audit scope begins May 1, 2013, which is four months after the problem was identified by VDP, and the exception existed through April 2015.

OVERPAYMENTS TO PHARMACY ALTERNATIVES

Overpayments identified in the sample of initial fill claims were recommended for recovery on a dollar-for-dollar basis, due to refill claims inappropriately submitted as initial fill claims as discussed in Issue 7. Claims submitted with incorrect information may be subject to the assessment of penalties. Overpayments identified for the sample of refill claims were used to calculate an error rate, which was applied to the population of all refill claims using extrapolation. See Appendix A for the sampling and extrapolation methodology.

Recovery of Dollar-for-Dollar Initial Fill Overpayments

Overpayments for the initial fill population, to be recovered on a dollar-for-dollar basis, totaled $7,083.60. These overpayments are detailed in the following issues.

Issue 1	$ 3,064.86
Issue 2	1,222.85
Issue 3	2,777.26
Issue 4	18.63
Total	$ 7,083.60

Recovery of Extrapolated Refill Population Overpayments

The refill population included in this audit consists of 8,431 fee-for-service VDP claims from May 1, 2013, through August 31, 2015, for which HHSC paid Pharmacy Alternatives $2,007,220.07. A statistically valid sample was selected that included 111 claims for which HHSC paid Pharmacy Alternatives $123,669.49. These exceptions are detailed in the following issues.

Issue 1	$ 13,424.08
Issue 3	615.60
Issue 5	19.09
Issue 6	8,524.46
Total	$ 22,583.23

The estimated overpayment amount was calculated by extrapolating the dollar value of the errors across the entire refill population. By extrapolating the results to the entire refill population of claims within the scope of the audit, OIG determined that the exceptions represented an overpayment for the refill population of $256,938.21. The overpayment was calculated using the lower limit of a two-sided 80 percent confidence interval.

Recommendation 8

Pharmacy Alternatives should return the overpayment amount of $256,938.21 to the State of Texas.

Management Response

The VDP Program was designed to permit pharmacy providers to provide excellent and cost-effective service to its participants and to the benefits of the public in Texas. The issues involved in this matter are not reflective of any violation of law, rule or contract obligation, but rather the result from either misinterpretation of the documentation provided or a lack of understanding about how pharmacy services are provided in the long-term care setting. We respectfully request that you reconsider the initial findings in the light of the intent of the regulations and the setting in which the pharmacy services are provided.

Auditor Comment

The OIG Audit Division reconsidered the initial results based on the management responses to the draft audit report and the additional documentation Pharmacy Alternatives provided. The OIG Audit Division consulted with the OIG Chief Pharmacy Officer to verify its understanding of pharmacy services in a long-term care environment and with VDP related to rule or contract violations. Each exception detailed in this report is a violation of law, rule, or contract obligation.

CONCLUSION

Pharmacy Alternatives complied with TAC and contract provisions related to controlled substances, warehouse billing, and acquisition cost. IT general controls were adequate, and the data used to form audit conclusions was reliable.

There were exceptions related to claims validity, NDC usage, quantity, and refills. Pharmacy Alternatives did not bill VDP properly, or comply with other contractual or TAC requirements, for 16 of the 120 initial fill claims and for 59 of the 111 refill claims tested. The 16 initial fill claims resulted in $7,083.60 reimbursed in error. The 59 refill claims resulted in $22,583.23 identified for recoupment, which extrapolates to $256,938.21. The total amount due to the State of Texas is $264,021.81.

In addition, for 75 initial fill claims, Pharmacy Alternatives dispensed and billed VDP for prescription refills. The claims submitted to VDP were inappropriately identified as initial fills. Exceptions for 13 of the 75 initial fill claims were identified in other issues. The errors for the remaining 75 claims may be subject to the assessment of penalties.

The OIG Audit Division offered recommendations to Pharmacy Alternatives, which, if implemented, will correct deficiencies in compliance with state guidelines.

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

Appendix A: Sampling and Extrapolation Methodology

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 120 initial fill claims and a sample of 111 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 05/01/2013, to 08/31/2015)
- TX Status Code (equal to PD)
- Batch Doc. Type Code (equal to A;C)
- Group ID (equal to V)

- Pharmacy ID (equal to 145682)
- TPL Amt Less than or Equal to (0)

Overpayments identified in the sample of initial fill claims were recommended for recovery on a dollar-for-dollar basis, due to the inappropriate claims submission discussed in Issue 7. Claims with inappropriate claims submission, which are not identified in this report as having other recoverable exceptions, may be subject to the assessment of penalties. Overpayments identified for the sample of refill claims were applied to the population of all refill claims in the population using the extrapolation methodology described below. The resulting estimate was recommended for recovery.

Extrapolation

OIG provided Pharmacy Alternatives 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 population used for extrapolation included in this audit consists of refill claims with dispensing dates between May 1, 2013, and August 31, 2015. The estimated overpayment amount of $256,938.21 was calculated by extrapolating the dollar value of the errors as identified in Appendix C across the refill population for this audit at the time of the draft report. The overpayment was calculated using the lower limit of a two-sided 80 percent confidence interval.

Pharmacy Alternatives 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 Pharmacy Alternatives 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 for Initial Fill Population

The table below provides details about the claims filed and paid in error for the following issues discussed in the report.

Issue 1: Missing Supporting Documentation
Issue 2: Prescriptions Not Signed
Issue 3: Incorrect Prescriber Identification Numbers
Issue 4: Missing Medication Invoice

Sample Number	Prescription Number	Fill Date	Issue Number	Claim Amount
6-OF	[redacted]	5/22/2013	3	$ 12.81
13-OF		7/19/2013	3	229.08
24-OF		10/22/2013	3	19.68
25-OF		10/30/2013	1	1,270.86
33-OF		12/9/2013	2	1,198.51
52-OF		2/21/2014	1	18.59
62-OF		3/18/2014	3	814.27
78-OF		5/10/2014	1	841.2
81-OF		5/20/2014	2	24.34
87-OF		6/16/2014	1	194.63
91-OF		5/21/2014	3	1,682.40
99-OF		7/24/2014	1	319.92
101-OF		8/20/2014	3	19.02
106-OF		10/20/2014	1	201.07
108-OF		10/24/2014	1	218.59
119-OF		2/9/2015	4	18.63
Total				$ 7,083.60

Source: OIG Audit Division

Appendix C: Paid Claims for Refill Population Subject to Extrapolation

The table below provides details about the claims filed and paid in error for the following issues discussed in the report.

Issue 1: Missing Supporting Documentation (full claim amount prior to September 8, 2013; dispensing fee after September 8, 2013)
Issue 3: Incorrect Prescriber Identification Numbers
Issue 5: Incorrect Medication Quantities (dispensing fee)
Issue 6: Unauthorized Refills (full claim amount)

Sample Number	Prescription Number	Fill Date	Issue Number	Identified Recovery Amount
1-RF	[redacted]	6/3/2013	1	$72.40
4-RF		7/22/2013	1	73.60
6-RF		8/1/2013	1	2095.36
8-RF		8/1/2013	1	5792.01
9-RF		8/5/2013	1	2328.78
12-RF		8/19/2013	1	991.20
13-RF		8/23/2013	1	538.58
14-RF		9/3/2013	1	107.18
15-RF		9/3/2013	1	26.16
18-RF		9/16/2013	1	11.27
19-RF		9/23/2013	1	33.36
20-RF		9/23/2013	1	7.23
21-RF		9/23/2013	1	18.01
22-RF		10/1/2013	1	23.86
25-RF		10/15/2013	1	11.27
28-RF		10/21/2013	1	6.84
30-RF		11/1/2013	1	52.14
31-RF		12/2/2013	1	29.37
33-RF		12/2/2013	1	18.31
34-RF		12/2/2013	1	47.85
36-RF		12/11/2013	1	41.97
37-RF		12/23/2013	1	64.52
39-RF		1/2/2014	6	1559.58
41-RF		1/8/2014	6	2095.36
44-RF		2/3/2014	1	29.37
47-RF		2/28/2014	1, 5	16.60
48-RF		3/3/2014	6	23.51
49-RF		3/3/2014	1, 6	12.4
51-RF		1/21/2014	1	7.09

Sample Number	Prescription Number	Fill Date	Issue Number	Identified Recovery Amount
52-RF	[redacted]	3/17/2014	1	140.94
55-RF		4/1/2014	1	71.02
56-RF		4/22/2014	1, 3	634.53
58-RF		5/1/2014	1	10.93
59-RF		5/1/2014	5	19.09
60-RF		5/1/2014	1	31.55
61-RF		5/1/2014	1, 6	2,429.58
62-RF		5/1/2014	1	7.00
66-RF		5/20/2014	1	73.21
67-RF		5/20/2014	1	18.00
70-RF		6/5/2014	1	27.48
72-RF		6/11/2014	1	140.94
74-RF		6/23/2014	1	18.06
76-RF		7/1/2014	1	23.69
77-RF		7/1/2014	6	277.14
78-RF		7/7/2014	1	14.93
79-RF		7/8/2014	1	17.24
80-RF		7/15/2014	1	7.19
83-RF		8/1/2014	1	14.93
87-RF		8/20/2014	1, 6	19.74
89-RF		8/22/2014	1	10.10
90-RF		9/2/2014	1	29.01
91-RF		10/14/2014	1	40.11
92-RF		12/16/2014	1	104.72
93-RF		12/16/2014	1	55.67
95-RF		1/23/2015	1	7.10
101-RF		5/19/2015	1	7.19
104-RF		6/23/2015	1	10.92
105-RF		7/1/2015	6	2174.88
111-RF		6/16/2015	1	11.16
Total				$ 21,967.63

Source: OIG Audit Division

Appendix D: Claims Subject to Administrative Penalty

The following errors identified in Issue 7 Refills Billed as Initial Fills may constitute proper bases for assessing penalties.

Sample Number	Prescription Number	Fill Date
6-OF	[redacted]	5/22/2013
7-OF		5/22/2013
9-OF		6/3/2013
10-OF		6/20/2013
14-OF		7/22/2013
15-OF		7/25/2013
17-OF		8/12/2013
19-OF		8/20/2013
22-OF		9/24/2013
24-OF		10/22/2013
26-OF		11/4/2013
28-OF		11/18/2013
29-OF		11/19/2013
30-OF		11/22/2013
33-OF		12/9/2013
35-OF		12/13/2013
37-OF		12/24/2013
38-OF		12/24/2013
41-OF		1/28/2014
42-OF		1/29/2014
46-OF		2/11/2014
47-OF		2/14/2014
50-OF		2/20/2014
51-OF		2/21/2014
52-OF		2/21/2014
53-OF		2/24/2014
54-OF		2/24/2014
55-OF		2/25/2014
57-OF		3/4/2014
62-OF		3/18/2014
63-OF		3/19/2014
64-OF		3/20/2014
66-OF		3/21/2014
67-OF		3/24/2014
68-OF		3/24/2014
69-OF		3/24/2014

Sample Number	Prescription Number	Fill Date
70-OF	[redacted]	3/24/2014
71-OF		2/13/2014
73-OF		4/10/2014
74-OF		4/23/2014
75-OF		4/23/2014
76-OF		4/23/2014
77-OF		4/24/2014
78-OF		5/10/2014
81-OF		5/20/2014
82-OF		5/22/2014
84-OF		6/2/2014
86-OF		6/13/2014
87-OF		6/16/2014
88-OF		6/16/2014
89-OF		6/18/2014
91-OF		5/21/2014
93-OF		7/17/2014
94-OF		7/18/2014
95-OF		7/22/2014
96-OF		7/22/2014
97-OF		7/23/2014
98-OF		7/23/2014
99-OF		7/24/2014
100-OF		8/4/2014
101-OF		8/20/2014
102-OF		8/20/2014
104-OF		8/27/2014
105-OF		9/17/2014
106-OF		10/20/2014
107-OF		10/21/2014
108-OF		10/24/2014
111-OF		11/3/2014
112-OF		11/20/2014
113-OF		11/21/2014
115-OF		12/22/2014
116-OF		12/30/2014
117-OF		1/21/2015
118-OF		8/15/2014
120-OF		4/23/2015
Total		75

Source: OIG Audit Division

Appendix E: Report Team and Distribution

Report Team

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

- 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
- Jesus Vega, CIGA, Senior Auditor
- Adebukola Salawu, Staff 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
- Karin Hill, Director of Internal Audit
- Enrique Marquez, Chief Program and Services Officer, Medical and Social Services Division
- 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

- Robin Agnew, Director, Cross Coordination and Pharmacy Benefit Oversight, Vendor Drug Program
- Kimberly Royal, Manager, Contract Compliance and Performance Management, Medicaid and CHIP Services

Pharmacy Alternatives

- Paul Delomel, Director of Pharmacy
- Doug Russell, President

Appendix F: OIG Mission and Contact Information

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
- Anita D'Souza, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Olga Rodriguez, Chief of Strategy and Audit
- Quinton Arnold, Chief of Inspections and Investigations
- Brian Klozik, Chief of Medicaid Program Integrity
- Tony Owens, Deputy IG for Third Party Recoveries
- David Griffith, Deputy IG for Audit
- Alan Scantlen, Deputy IG for Data and Technology
- Lizet Hinojosa, Deputy IG for Benefits Program Integrity
- Judy Hoffman-Knobloch, Assistant Deputy IG for Medical Services

To Obtain Copies of OIG Reports

- OIG website: https://oig.hhsc.texas.gov

To Report Fraud, Waste, and Abuse in Texas HHS Programs

- Online: https://oig.hhsc.texas.gov/report-fraud
- Phone: 1-800-436-6184

To Contact OIG

- Email: OIGCommunications@hhsc.state.tx.us
- Mail: Texas Health and Human Services Commission
  Office of Inspector General
  P.O. Box 85200
  Austin, Texas 78708-5200
- Phone: 512-491-2000