

University of California
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Audit Services

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**SUBJECT: Outpatient Pharmacy Billing Review
Audit Services Project #11-018(B)**

As part of the fiscal year 2010-2011 audit plan, Audit Services conducted a limited review of billing practices for pharmaceuticals administered in the outpatient setting to assure complete, accurate and timely billing. The review focused on three outpatient clinics with the highest medication administration activity: Cancer Center-Infusion Unit, Transfusion Services, and Pediatric Day Treatment Center.

During our assessment of procedures and controls Audit Services identified process weaknesses related to the maintenance and updating of the National Drug Code (NDC) dictionary. We performed limited testing to validate the accuracy of the NDC dictionary and the conversion factors used to convert the Healthcare Common Procedure Coding System (HCPCS) quantity units to NDC quantities. The purpose of this letter is to communicate the control deficiencies identified in the review.

The National Drug Code (NDC) is a universal product identifier used by the Food & Drug Administration (FDA) for reporting human drugs and biologics.¹

The NDC directory is updated on a quarterly basis by the FDA and therefore it is important that provider and payer systems and processes are designed to apply these updates. The Deficit Reduction Act of 2005 (DRA) requires States that are participating in the Medicaid program to collect rebates on physician-administered drugs in the outpatient setting. Effective April 1, 2009, providers are required to submit their claims with the exact and accurate NDC and NDC quantities.

As Medi-Cal claims reimbursement is based on the HCPCS codes and quantities, to comply with this regulatory reporting requirement, UCSF Medical Center built a NDC dictionary that is used for converting HCPCS drug codes and quantity units to NDC units. The NDC dictionary resides in IDX system and its maintenance is the responsibility of Reimbursement Services and Pharmaceutical Services.

To determine the accuracy of the NDC dictionary, Audit Services compared the NDC contained in the pharmacy's drug expense recharge report against the IDX NDC dictionary for one selected clinic. The review identified discrepancies between the recharge expense report and the IDX NDC dictionary as follows:

- Billable drugs without a corresponding WORx CDM and therefore were not included in the IDX NDC dictionary;
- Billable drugs with a WORx CDM however the NDC number differed to the IDX NDC number. This has likely to have occurred when the drug is purchased from a different labeler.

Additionally, minor errors were identified in the conversion of HCPCS quantities to NDC quantities.

Medical Center has established procedures for updating the IDX NDC dictionary for new drugs or changes to NDC numbers whereby Pharmaceutical Services adds /updates a WORx Charge Description Master (CDM) for billable drugs first; and then notifies Reimbursement Services of the new drug or changes to existing charge number using a "Pharmacy Upload Form". The upload form acts as a trigger for the NDC to be added to the IDX NDC dictionary by Reimbursement Services.

¹ The NDC is a unique 11-digit, 3-segment number assigned to each drug product. The number identifies the labeler or vendor, product and trade package size.

However, in the above cases the procedures were not followed resulting in NDC number not being updated and in some cases a CDM code was not generated for the new drugs. Additionally, inconsistent practices in the outpatient clinics for requesting CDM codes for new drugs purchases and / or updating NDCs for existing drugs has also contributed to the IDX NDC dictionary not being correctly updated.

Submission of incorrect NDC and quantities of pharmaceuticals administered may be considered as false reporting, and may cause claims to be denied. Additionally, there is increased risk for patient safety if drugs administered cannot be easily identified in situations where there is a recall of the drug.

To ensure the accuracy and completeness of the NDC dictionary, management has agreed to the following corrective actions:

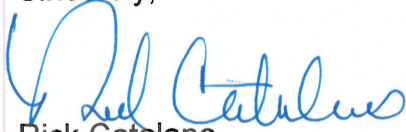
Management Corrective Actions

- a) To assure consistencies in practices, by May 30, 2011, Reimbursement Services in conjunction with Pharmaceutical Services will communicate to outpatient clinics the establish written procedures for adding new NDC / CDM for new drugs.
- b) By January 2, 2012, Reimbursement Services in conjunction with Pharmaceutical Services will ensure that sufficient controls and processes for updating NDC and CDM codes are implemented within the new electronic health record system (APEX) environment.

The management corrective actions identified in this report will be added to the Audit Services follow-up database. Periodically, the Reimbursement Services and Pharmaceutical Services management will be contacted to ascertain the status of the implementation. Additional audit work may be performed to validate actions taken. You will be notified when all corrective actions have been implemented and this audit is considered closed.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely,



Rick Catalano
Director

c: Director Davoren
Executive Director Morgan
Director Shield

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