

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**University of California, Davis Health System
Retail Pharmacy Reimbursement
Internal Audit Services Project #12-22**

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MANAGEMENT SUMMARY

BACKGROUND

Retail Pharmacy operates as a unit within the Department of Pharmacy Services to provide outpatient prescription services, including prescription filling, dispensing and sales. The latter being either cash collections from patients at the point of sale or payments from third-party payors. Retail Pharmacy operates four outpatient pharmacies at UC Davis Medical Center and one at the Medical Partners of Davis health facility. In fiscal year 2010-2011, Retail Pharmacy filled 193,000 prescriptions, which generated \$22 million in net revenue from gross revenue totaling \$32 million.

In November 2011, Retail Pharmacy transitioned from the Outpatient Pharmacy Information System to the Epic Willow Ambulatory module for outpatient medication management and billing. The new Epic module allowed medication ordering and administration processing to be managed as a single order record for pharmacists, physicians, nurses, and other healthcare professionals.

PURPOSE AND SCOPE

The Retail Pharmacy was audited as part of our planned reviews for fiscal year 2012. Retail Pharmacy claims are processed, adjudicated and paid through prescription benefit managers with whom health plans have contracted. While reimbursement is simplified by automation, such handling does not allow for the same type of review Patient Account Services conducts to ensure appropriate reimbursements of inpatient and outpatient claims. The purpose of the audit was to review the system and process for capturing the information necessary to ensure appropriate reimbursement for outpatient medication.

To conduct our review, we interviewed Retail Pharmacy personnel to determine prescription dispensing services performed along with associated charge capture, billing and collection processes. We used a risk based approach to focus our review on specific key processes such as prescription filling, dispense, charge entry, and management oversight. We also collaborated with key personnel to identify remedial actions to address risk issues that may impact patient care and financial services.

CONCLUSION

We concluded that sufficient separation of duties exists for billing and recordkeeping and that the Willow Ambulatory module captures information necessary to ensure that all prescriptions dispensed are billed to the appropriate payors on a timely basis. We also identified opportunities for improvement in billing, revenue recording, collections management, and fiscal oversight. Although no revenue was lost, Retail Pharmacy revenues were not completely and accurately recorded for all prescriptions billed and prescription records were not maintained accurately. Additionally we noted accounts receivables were not reconciled, and key financial information, such as claim write-offs and inventory count variances, were not reviewed to identify opportunities for operational improvements.

Our observations and recommendations are presented within the body of this report along with corresponding corrective actions management has agreed to implement.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS**1. Revenue Accounting*****The process for revenue classification and recording could be improved***

We determined that revenue was not recorded for some of the dispensed prescriptions and that duplicate charges were posted for other prescriptions. We also determined that revenue data from the billing system was not properly mapped to the correct income objects in the accounting system and general ledger, and that prescription numbers were not completely captured in the monthly revenue feed for certain prescriptions.

Due to an abbreviated timeframe for the Epic Willow Ambulatory implementation, Financial Services Administration (FSA) adopted a revenue mapping scheme for the new billing system based on the prior mapping schedule that was assumed to be accurate. Neither Retail Pharmacy nor FSA reviewed the financial reports arising from the new billing system implementation in sufficient detail to identify deficiencies.

Some of the dispensed prescriptions were not captured in the revenue feed, which is a customized interface that captures completed prescription transactions from Epic into a detailed revenue subsidiary ledger to allow for revenue journal entry posting in DaFIS. The current revenue feed configuration was not initially designed to prevent the duplicate recording of revenue, to include prescriptions with account numbers that begin with "00000," and to enable capturing prescription numbers for prescriptions related to inter-pharmacy transfers. In addition, adjudicated amounts were not captured as net revenue for prescription claims with secondary payors and several sets of charges in the revenue feed were incorrectly flagged to be excluded from being recorded as revenue as a result of the current system configuration.

UCD Administrative Responsibilities Handbook, *Principles of Data Integrity*, states that financial management decisions affect every aspect of the university, but such decisions can only be as good as the data on which they are based. Consequently, each unit must establish and implement a system to ensure data integrity. This system must provide reasonable assurance that transactions are in accordance with the appropriate authorization and are recorded in the university records in an accurate and timely manner. Each unit must ensure that all financial transactions are recorded correctly.

UCOP *Understanding Internal Controls* guidance emphasizes that reviewing reports, statements, reconciliations, and other information by management is an important control activity; management should review such information for consistency and reasonableness. Management should also compare information about current performance to budgets, forecasts, prior periods or other benchmarks to measure the extent to which goals and objectives are being achieved and to detect unexpected results or unusual conditions which require follow-up.

UCOP Accounting Manual H-576-60, *Medical Centers Patient Accounts Receivable*, states that all revenue generating centers are responsible for ensuring the timely and accurate submission of individual charge transactions into the billing system. In the preparation of input documents, attention must be given to legibility and completeness of required data so that the

documents can be promptly processed. Appropriate audit trails and controls must be maintained.

Since the implementation of Epic Willow Ambulatory in November 2011, we identified a 100% decline in 4 revenue objects totaling \$168,000 through February 2012. We also identified net revenue totaling \$112,000 related to charges that were missing prescription numbers as unique identifiers in the revenue feed for dispensed prescriptions. In addition, we identified duplicate charges reflecting net revenue totaling \$14,000 in the December 2011 monthly revenue feed and 126 prescriptions with net revenue totaling \$22,000 in the January 2012 feed that were not recorded because the prescriptions had account numbers starting with "00000." Finally, 188 prescriptions with net revenue totaling \$8,000 that were associated with secondary payor adjudicated claims were not recorded in the general ledger from December 2011 to February 2012. None of these errors resulted in lost revenue to the UC Davis Health System. However, failure to properly configure the revenue feed to prevent errors and to capture relevant prescription information will result in the inaccurate and/or incomplete recording of revenue and adversely impact the ability to track and pursue collection for billed prescriptions and to monitor revenue transactions for anomalies requiring remedial action.

Recommendation

Retail Pharmacy should review and reconfigure the revenue feed to ensure that all charges are properly recorded and submit a request for Clinical Information Systems to revise the revenue feed configuration to enable capturing the list of prescription numbers in the monthly revenue feed.

UCDHS Financial Services should implement sufficient financial review procedures to ensure all transactions are recorded properly for future significant information system implementations.

Management Corrective Action

Retail Pharmacy has reviewed and reconfigured the revenue feed to ensure that all charges are mapped to the proper DaFIS income object code, prevent duplicate revenue recording and record the revenue from prescriptions with account numbers starting with "00000."

Retail Pharmacy will be unable to reconfigure the revenue feed to ensure that all secondary payor adjudicated charges are properly recorded before June 30, 2014 due to significant development anticipated from Epic to facilitate correctly reporting charges for prescriptions billed to multiple payors.

Retail Pharmacy will revise the revenue feed configuration to enable capturing the list of prescription numbers in the monthly revenue feed by April 30, 2013.

2. Accounts Receivable Reconciliation

A reconciliation process for accounts receivable should be established.

The accounts receivable general ledger was not reconciled to the accounts receivable aging report. System constraints in the Epic billing system preclude the capturing of payment information and the development of accounts receivable aging reports. Epic billing system is not displaying necessary bill code reference information to determine whether payment was collected for a specific claim.

UCOP Accounting Manual R-212-2, *Receivables Management*, establishes that an aged listing of individual receivable balances will be prepared at least quarterly and will reflect the results of billing and collection follow-up activity. Management above the level responsible for supervising the billing and collection follow-up function will review old dated balances. The accounting office will ensure that subsidiary ledger records (including those maintained outside the accounting office) are reconciled to the control account balances at least quarterly.

Retail Pharmacy submits billings totaling approximately \$2 million each month. Without sufficient accounts receivable reconciliation, untimely payments, underpayments and/or non-payments from third-party payors may not be detected.

Recommendation

Retail Pharmacy should evaluate the cost/benefit of employing the billing service available from the outside electronic claim clearinghouse, which reconciles third-party payors claims against remittance advices.

Retail Pharmacy should also establish a bill code reference in the Epic prescription screen to enhance cash collection process and reporting transparency.

Management Corrective Action

Retail Pharmacy has evaluated the cost/benefit of employing the billing service available from the outside electronic claim clearinghouse and will implement this service by December 31, 2012. The service is only available for payors that provide electronic remittance advices (80%). Other payments will continue to be tracked manually.

Having the billing code reference readily available in Willow Ambulatory will become less important once the reconciliation service is provided. However, it will still be needed to facilitate manually tracking payments. Establishing a bill code reference in the Epic prescription screen will require significant development from Epic.

Development will likely take place in the Epic 2014 version, but may be incorporated into the 2012 version scheduled for installation sometime in 2013. As a result of this uncertainty, Retail Pharmacy will establish a timeframe of on or before December 31, 2014 for the implementation.

3. Review of Inventory Count

A process for reviewing inventory count variances should be implemented.

Retail Pharmacy inventory physical count variances were not reviewed. Significant manpower and time devoted to implementation of the new Epic system limited management's ability to review the inventory variances resulting from the physical inventory.

UCDHS Policies and Procedures 2278 states the Controller shall be responsible for the periodic review and control of hospital departmental major supply inventories. Adjustment requests exceeding \$250 per transaction (line item) must be supported with a written explanation and approved by the department head.

For fiscal year 2010-2011, 47 drugs with negative quantity adjustment totaling \$290,000 were not reviewed and investigated. Without sufficient management review, excessive inventory waste and write-offs may result and theft may be undetected.

Recommendation

Retail Pharmacy has been addressing known inventory data transfer issues between Epic Willow Ambulatory and Cardinal inventory management system to address inventory discrepancies. However, Retail Pharmacy should collaborate with the Controller in establishing a process to review physical inventory counts and investigate significant count variances.

Management Corrective Action

Retail Pharmacy will collaborate with the Controller in establishing a process to review physical inventory counts and investigate significant count variances by December 31, 2012.

4. Prescription Write-off and Charity Care

Review documentation for write-off and charity care could be improved.

Reviews of prescription write-offs and charity care (prescriptions provided to low income patients for free) were not sufficiently documented. The Epic system is not currently configured to track prescription write-offs and charity care.

UCOP Accounting Manual H-576-60, *Medical Centers Patient Accounts Receivable*, provides that periodic reviews for unbilled and unsupported charges should be conducted by a person with sufficient knowledge of charging and chart documentation procedures using agreed-upon criteria or targets established between the administration and the department. Uncollectible accounts will be written off, subject to appropriate approval authority, when they are determined to be uncollectible. Complete records of all accounts written off will be maintained. Insufficient review of write-offs and charity care may result in excessive prescription write-offs and charity care.

Recommendation

Retail Pharmacy should set up a new bill code to accumulate the prescription write-offs and charity care. Retail Pharmacy should also establish a process to generate a report of prescription write-offs and charity care for review and approval on a monthly basis.

Management Corrective Action

Retail Pharmacy will set up a new bill code to accumulate the prescription write-offs and charity care, and a process to generate a report of prescription write-offs and charity care for review and approval on a monthly basis by December 31, 2012.

5. Point-of-Sale Barcode Scanning

Procedures to ensure the accuracy of scanned prescription numbers should be strengthened.

Pharmacy cash registers responsible for maintaining records of dispensed prescriptions were not accurately reading prescription numbers from the barcode scanners. Electronic scanners may not be reading the bar code accurately, and the misread prescription numbers from the cash register may be overlooked by the pharmacist or pharmacy technician due to high dispensing volume during busy periods. Payor agreements provide for the recovery of any payments made to Pharmacy from inaccurate claim submission or information submitted by Pharmacy.

Retail Pharmacy experienced 473 inaccurate prescription number readings from the barcode scanner during the period December 2011 through March 2012. Inaccurate prescription dispense records may result in denied claims.

Recommendation

Retail Pharmacy should require dispensing staff to review the scanned prescription number before dispensing medication to patients.

Retail Pharmacy should also evaluate possible implementation of system controls to ensure prescription numbers are scanned accurately.

Management Corrective Action

Retail Pharmacy has notified dispensing staff to review the scanned prescription number before dispensing medication to patients.

Implementation of an interface between EPIC Willow Ambulatory and Emporos (pharmacy cash register) to address this problem by prompting the user when an incorrect prescription number is scanned is currently under development for implementation by June 30, 2013.

6. Prescription Supply Days

Documentation for prescription supply days could be improved.

Prescription supply days were billed incorrectly in the prescription claims. Claim supply days will be defaulted to 30 days by the Epic Willow Ambulatory system if not properly entered by the reviewing pharmacist. The 2012 Lawbook for Pharmacy, Section 1717.1, establishes that all common electronic files must contain complete and accurate records of each prescription and refill dispensed.

Out of 120 randomly selected prescription claims, we identified 20 claims totaling approximately \$13,000 with inaccurate supply days. Inaccurate supply days records have resulted in denied claims and in revenue losses from third-party payor audits.

Recommendation

Retail Pharmacy should require that reviewing pharmacists verify the supply days during prescription filling.

Management Corrective Action

Retail Pharmacy has notified staff of the need to verify submission of the correct supply days on all claims. EPIC is also continuing to address the problem that causes the supply days to default to 30 days.

7. Charge Submission Timeliness

A process for recharging Global Authorization prescriptions should be established.

We identified prescription charges that were not submitted on a timely basis. A small group of prescriptions related to Global Authorization reimbursements where a third-party payor paid one lump reimbursement for a patient's entire treatment without a distinctive allocation to outpatient prescription. Retail Pharmacy does not have a standardized process to recharge these prescriptions. Per UCDHS Policies and Procedures 1205, *Outpatient Charge Submission*, charges should be timely submitted within 5 working days from dispense date.

During the period December 2011 through February 2012, we identified three charges totaling \$37,000 that were not recharged for over four months. Failure to recharge the prescriptions on a timely basis increases the risk that revenue may be understated and not recorded in the proper accounting period.

Recommendation

Retail Pharmacy should establish a process to recharge Global Authorization prescriptions in a more timely manner.

Management Corrective Action

Retail Pharmacy is currently working with Finance and Managed Care to determine how to post these charges correctly by December 31, 2012.

8. Average Wholesale Price List

Procedures for maintaining the Average Wholesale Price (AWP) list could be improved.

The AWP list, used for charge determination, has not been updated in the Epic system for charge entry on a monthly basis since September 2011. The prior AWP publishing company discontinued its service. Retail Pharmacy is in the process of amending a pre-existing contract with another company that has an established business agreement with the University of California. Contract finalization is pending UC Office of the President action.

Department of Pharmacy Policy 620.10, *Prescription Pricing*, requires the AWP price list to be regularly updated to ensure that prescription pricing is done in a consistent manner and is based on current information. Failure to update the AWP price list in a timely manner will result in inconsistent prescription pricing and may result in lost revenues.

Recommendation

Retail Pharmacy should reestablish the process for updating the AWP price list on a monthly basis.

Management Corrective Action

Retail Pharmacy has reestablished the process for updating the AWP price list on a monthly basis.

9. Pharmacy Policy and Procedure Manual

The Pharmacy Policy and Procedure Manual should be updated.

The Pharmacy Policy and Procedure Manual has not been updated to reflect revised processes adopted during the recent Epic implementation. We noted that the manual continued to reference systems that have been replaced for medical record entry, prescription filling, dispensing, and billing processes. Addressing the Epic system implementation issues were deemed a higher priority than updating the department policy and procedure manual.

UCOP *Understanding Internal Controls* guidance defines the control environment as the control consciousness of an organization. It is the atmosphere in which people conduct their activities and carry out their control responsibilities. Management enhances an organization's control environment when they establish and effectively communicate written policies and procedures. As such, department policies and procedures should be updated in a timely manner. Failure to maintain a current policy and procedure manual may result in inconsistent

practices and expose the department to errors, omissions, and delays, diminish reliability in financial reporting, and non-compliance with applicable laws and regulations.

Recommendation

Retail Pharmacy should update the policy and procedure manual.

Management Corrective Action

Retail Pharmacy will update the policy and procedure manual by December 31, 2012.
