UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES

UC Davis Health
Pharmacy
Audit & Management Advisory Services Project #22-15

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UCDH - Pharmacy
AMAS Project #22-15

MANAGEMENT SUMMARY

Background

As part of the fiscal year (FY) 2022 audit plan, AMAS reviewed Pharmacy operations at UC Davis Health (UCDH).

UCDH provides Pharmacy services at multiple locations. Inpatient, outpatient and specialty pharmacy services are provided on the main UCDH campus, with additional outpatient pharmacy locations in Sacramento and Davis. Additional pharmaceutical inventories are maintained at clinic locations in Auburn, Elk Grove, Folsom, Sacramento, and Rocklin.

In the past few years, Pharmacy has undergone a period of exceptional growth due to expansion and the addition of new services, such as infusion services, specialty pharmacy, 340B oversight, and COVID vaccine management. As a result, overall Pharmacy staffing has increased by 28% from FY2020 to FY2021. During the same period, total Pharmacy revenue grew to $1.3B, an 11% increase from FY2020 and a 23% increase from FY2019.

Purpose and Scope

The purpose of this audit was to assess various aspects of Pharmacy operations related to expansion, inventory management and state and federal regulations. Based on the assessed risks, our review focused on the following:

- Pharmacy staffing and recruitment processes;
- Processes for revenue recognition and accounts receivable management;
- Methods of confirming inventory valuation, including drug transfers, counts and reconciliations;
- Monitoring of 340B contracted pharmacies; and
- Assessment of collaborative practice agreements.

To complete our review, we utilized payroll data from FY2020 and FY2021, and reviewed historical and current organization charts. We also compared financial data recorded in Kuali from FY2017 to FY2021 and records maintained internally by Pharmacy staff to track outpatient accounts receivable. We met with staff from UCDH Finance, Revenue Cycle, and Epic IT. We also met with inpatient and outpatient Pharmacy staff and reviewed annual inventory valuations, quarterly reconciliation of schedule II-controlled substances (CII), weekly inventory counts, and transfer forms between clinics and external locations.

Conclusion

We observed that during FY2021, Pharmacy implemented additional measures to improve controls and oversight of drug inventories. This included an inventory management system for inpatient pharmacy and additional Drug Enforcement Agency (DEA) licenses for outlying Pharmacy locations. Additionally, the cost centers for retail pharmacy services were restructured so net revenue can now be assessed for each location.

We also observed that though an inventory management system has been put in place for inpatient pharmacy, no such system exists for outpatient pharmacies. Without an inventory management system, outpatient pharmacy must manually track items received and dispensed. Additionally, we observed inconsistencies in the inventory locations included in the annual inventory valuation reported to UCDH Finance. These inconsistencies may contribute to omissions in the quarterly reconciliations.

At the onset of this review, Pharmacy leadership engaged the support of UCDH Finance to resolve questions related to revenue recognition for outpatient pharmacy services and reconciliation of accounts receivable. This effort is ongoing and should continue until a process to resolve discrepancies is confirmed. Additional information on these observations is included in the body of this report.

We did not observe issues related to 340B contracted pharmacies or collaborative practice agreements.

Observations, Recommendations, and Management Corrective Actions

A. Outpatient Pharmacy financial oversight

There is a material variance between the balance of general ledger accounts receivable for pharmacy outpatients and the balance reflected on the Pharmacy's internal documentation.

Pharmacy utilizes the ScriptPro Third Party Management System (TPMS) to manage revenue and accounts receivable for ambulatory, retail, and specialty pharmacies. TPMS interfaces with Willow Ambulatory (Willow), and Willow feeds financial data directly to the general ledger (GL) through the Kuali Financial System.

A comparison of the Pharmacy accounts receivable balance recorded in the GL as of June 30, 2021, to Pharmacy internal tracking documents of the same date, identified a variance between the two sources that exceeded $2.1M[1]. Pharmacy attributes the majority of this variance to adjustments that are not accounted for in the GL. These adjustments include direct and indirect remuneration (DIR) fees, which are post adjudication adjustments by Pharmacy Benefit Managers as a true-up to targeted reimbursement rates. The DIR fees are typically assessed six months to a year after the payment was received. Claim level data on these adjustments is not always available and the fees are permitted by Centers for Medicare and Medicaid Services as part of Medicare part D and thus cannot be contested.

At the onset of this review, Pharmacy leadership engaged the support of UCDH Finance to resolve questions related to revenue recognition for outpatient Pharmacy services and reconciliation of accounts receivable. This effort is ongoing and should continue until a process to resolve discrepancies is confirmed.

[1] Pharmacy AR balance in Kuali as of June 30, 2021 was $11.7M compared to Pharmacy documentation that showed a balance of $9.6M

Additionally, the Kuali Financial System will be retired on June 30, 2023, and Pharmacy has begun assessing necessary changes to the existing processes for posting ambulatory, retail, and specialty pharmacies' activity to the GL. Currently, the billing and collection process for these pharmacy charges does not pass through Resolute nor do Revenue Cycle staff participate in oversight of the process. The upcoming change provides Pharmacy the opportunity to review the entire billing process, including the potential utilization of Resolute and dedicated Revenue Cycle staff.

Recommendations

Pharmacy should continue discussion with UCDH Finance to resolve account balance discrepancies and establish processes to accurately record accounts receivable activity going forward.

Pharmacy should also engage in discussion with Revenue Cycle leadership to consider how Revenue Cycle resources can benefit Pharmacy in the billing and collection of charges for outpatient pharmacy services.

Management Corrective Actions

a.) By November 15, 2022, Pharmacy and UCDH Finance will finalize an action plan to resolve discrepancies in accounts receivable balances, including a process to ensure future activity is properly recorded.

b.) By November 15, 2022, Pharmacy and UCDH Finance will provide documentation to confirm that the GL accounts receivable balance is reconciled and collectible.

c.) With the assistance of Revenue Cycle leadership, Pharmacy will consider the benefits that can be achieved through coordination with Revenue Cycle on billing and collection activity for outpatient services. Pharmacy will conclude on the feasibility of coordination with Revenue Cycle and document steps for implementation by November 15, 2022.

B. Annual Inventory counts

1. Annual inventory counts were inconsistent.

UCDH policy 2278, Major Supply Inventory Control, states all inventories valued at $50,000 or more are subject to an annual inventory count and valuation. For FY2021 and FY2020 Pharmacy engaged a third-party vendor to conduct end of year counts and valuations of inventories.

Numerous UCDH departments have medication inventories, including departments that do not report through the Pharmacy organizational structure. It is the expectation that all medication inventories exceeding the amount set in policy are included in the annual valuation and reported to UCDH Finance at the end of the year.

However, a comparison of FY2021 to FY2020 found inconsistencies in the inventory locations included in the count and valuation. These omissions were attributed to medication inventories that do not report through the Pharmacy organizational structure.

As a result, inventories that likely exceed $50,000[2] were excluded from the FY2021 inventory valuation.

Recommendation

Pharmacy should identify all UCDH drug inventories and, in conjunction with the areas with physical oversight of those inventories, assure that all inventories greater than $50,000 are counted and reported to UCDH Finance annually.

Management Corrective Action

a.) Pharmacy will by July 31, 2022, identify all UCDH drug inventories with potential to exceed $50,000. For those inventories that are not included in the Pharmacy organizational structure, Pharmacy will coordinate with the appropriate department to ensure inventories are properly reported.

C. Outpatient Pharmacy lacks an inventory management system

Outpatient pharmacy inventories are managed manually

Though the inventory module of Willow was approved in September 2021 for outpatient pharmacies, effort toward implementation of the system has not yet been initiated. As stated previously, California state regulations require a quarterly reconciliation of all CII medications and to comply with this regulation, outpatient pharmacies maintain a paper ledger to record all activity of CII medications. Outpatient pharmacies also rely on manual documentation and physical counts to identify when and what drugs to re-order. Implementation of an inventory management system can improve drug safety, reduce costs, improve operational efficiency and support compliance with reporting requirements.

Recommendation

Pharmacy will continue to work with Epic IT on the implementation of the inventory management system for outpatient Pharmacy.

Management Corrective Action

a.) By October 15, 2022, Pharmacy and Epic IT will finalize a project plan, including expected go live date, for the inventory management system for outpatient pharmacies.

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[2] The inventories excluded for FY2021 were ACC Eye Clinic and the Pulmonary Clinic which reported inventory values of $410K and $161K respectively for FY2020. These entities do not hold separate DEA licenses.