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November 19, 2021

Brenda Brodeur, Acting Associate Director, Financial Management
Rhode Island Department of Corrections
40 Howard Avenue
Cranston, RI 02920

Via email

Dear Ms. Brodeur:

The Office of Internal Audit has completed its review and evaluation of the Pharmacy and Prescription Services at the Department of Corrections. The review was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in Rhode Island General Laws (RIGL) §35-7.1-2(a) – Establishment of office of internal audit. The recommendation included herein has been discussed with members of management, and we considered their comment in the preparation of this report.

RIGL §35-7.1-10 (d), entitled *Annual and interim reports*, states that, “Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report.” Accordingly, management of the Department of Corrections submitted their response to the audit findings and recommendations on September 23, 2021 and such response is included in this report. Pursuant to this statute, the Office may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the RIDOC staff for the cooperation and courtesy extended to the members of our team during this review.

Respectfully yours,

Mike Sprague, CIA
Chief

Cc: Patricia Coyne-Fague, Esq., Director, Department of Corrections
Dr. Pauline M. Marcussen, Healthcare Services Administrator, Department of Corrections
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AUDIT Executive Summary

Why the OIA Did This Review

The purpose of this engagement is to examine the purchasing model currently used by the Rhode Island Department of Corrections (DOC) to purchase prescription drugs and pharmacy services for inmates in the Rhode Island correctional facilities and determine if DOC can obtain cost savings through modification of their existing contract model.

Background Information

The Minnesota Multistate Contracting Alliance for Pharmacy Infuse (MMCAP Infuse) is a national cooperative group purchasing organization (GPO) that obtains government-specific pricing for government facilities that provide healthcare services. MMCAP Infuse was established in 1985, is operated by the State of Minnesota, Office of State Procurement, and has over 13,000 members across all 50 states. The organization is self-funded, free for all members, and purchasing from the contracts is voluntary. MMCAP Infuse contracts leverage aggregated member volume to drive deeper prescription discounts, and therefore often offer lower prescription prices than through non-GPO contracts.

The OIA Recommend:

- Consider converting the pharmacy services and prescription purchase agreement to an MMCAP Infuse vendor.

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Introduction

Across the country, prisons and correctional facilities have been dealing with the impacts of rising pharmaceutical costs while carrying out their responsibility to provide healthcare services to their inmates. Historically, many states department of corrections have contracted with private pharmacy service providers to obtain medications and provide services to their inmates. In recent years, some states have seen cost savings by converting contracts to ones available under healthcare group purchasing organizations (GPOs). The State of Rhode Island has a Master Price Agreement (MPA) with a healthcare GPO called the Minnesota Multistate Contracting Alliance for Pharmacy Infuse (MMCAP Infuse). The authorized distributor on the RI MPA is Cardinal Health, Inc. (Cardinal). The Rhode Island Department of Behavioral Healthcare, Developmental Disabilities & Hospitals (BHDDH) and the Department of Health (DOH) have taken advantage of the benefits of MMCAP Infuse by utilizing the MPA with Cardinal Health, Inc.

DOC Pharmaceutical Service & Prescription Purchase Contracts Overview

The Rhode Island Department of Corrections (DOC) has been contracting with Contract Pharmacy Services, Inc. (CPS) for their pharmacy services and prescription drug purchases for inmates in its correctional facilities since 2006. The most recent contract started April 1, 2015 and expires on August 31st, 2021¹. This contract is an all-inclusive pharmacy and prescription fill contract. The pharmacy services provided to DOC included the following:

- Purchasing, packaging, and delivering medications
- Completing reviews, forms, and recordkeeping of prescription transactions
- Working with the DOC Electronic Medical Record (EMR) system's contractor to have a functioning interface
- Supplying medication storage carts and filling emergency kits
- Utilizing an on-call/emergency local pharmacy for immediate needs

The CPS invoices are submitted for one-month periods and are reviewed by the RIDOC Healthcare Services Administrator before payment. The contract between DOC and CPS consists of two separate invoices that are billed for each month of service; one is prepaid prior to the start of the service month, and one is paid after the service month has concluded:

- Monthly Prepayment Invoices include:
 - Management Fee based on the average prescriptions per inmate per month
 - A prepayment amount of \$125,000
- Subsequent Monthly Invoices include:
 - Medication charges
 - Emergency medication and backup pharmacy charges for same day urgent requests of medications
 - Courier Charges for the transportation of medications from Pennsylvania to the DOC facilities
 - Emergency Kits
 - Credits for returned medications

¹ The contract was scheduled to expire on June 30th, 2020 but was extended an additional year to June 30th, 2021 due to Covid-19 delays and again until August 31st, 2021 due to delays in the RFP bids evaluation process.

- Other miscellaneous charges
- 340B Program administration fee

CPS also provides a 2% discount to DOC if invoicing is paid within 30 days of the invoice date, this 2% discount is applied to the total invoice amount. All services and pricing provided by each contract renewal were in accordance with the similar terms and conditions set forth in the original CPS contract dated April 1, 2015 except for the addition of costs to cover Hepatitis C and other medications, and the 340B Program pricing dated September 3rd, 2019.

As of November 1, 2019, DOC implemented the 340B Drug Pricing Program. The 340B Program is a United States federal government program administered by the Health Resources and Services Administration (HRSA) that requires drug manufacturers participating in Medicaid to provide outpatient drugs to eligible healthcare organizations and covered entities at reduced prices. DOC is an eligible covered entity for inmates receiving medications through their 318 STD Clinic². Drugs purchased under the 340B program are administered by CPS under their all-inclusive contract. These 340B program drugs are purchased directly by DOC from the drug distributor Cardinal and shipped directly to the CPS pharmacy in Pennsylvania for CPS to provide the same comprehensive pharmacy services to inmates for medications covered under the 340B Program as to inmates for medications not covered under the 340B program. Invoicing from Cardinal consist of medications purchased only.

The University of Rhode Island (URI) has been contracted by DOC to provide pharmacy program oversight and utilization review services coordinated through Health Care Services. The URI Director of the Pharmacy Outreach Program currently has this oversight role. URI's responsibilities include oversight and management of the contract for medication from CPS, development, and implementation of the pharmaceutical utilization management strategies for DOC and addressing medication distribution issues within the DOC facilities. DOC pays URI a flat monthly rate for their pharmacist oversight and utilization review services.

DOC Pharmaceutical & Prescription Spending

DOC spent more than \$21 million for pharmaceutical services for fiscal years 2016 through 2020 or \$4.22 million on average, with pharmacy operations for seven facilities. During this period, DOC spent on average:

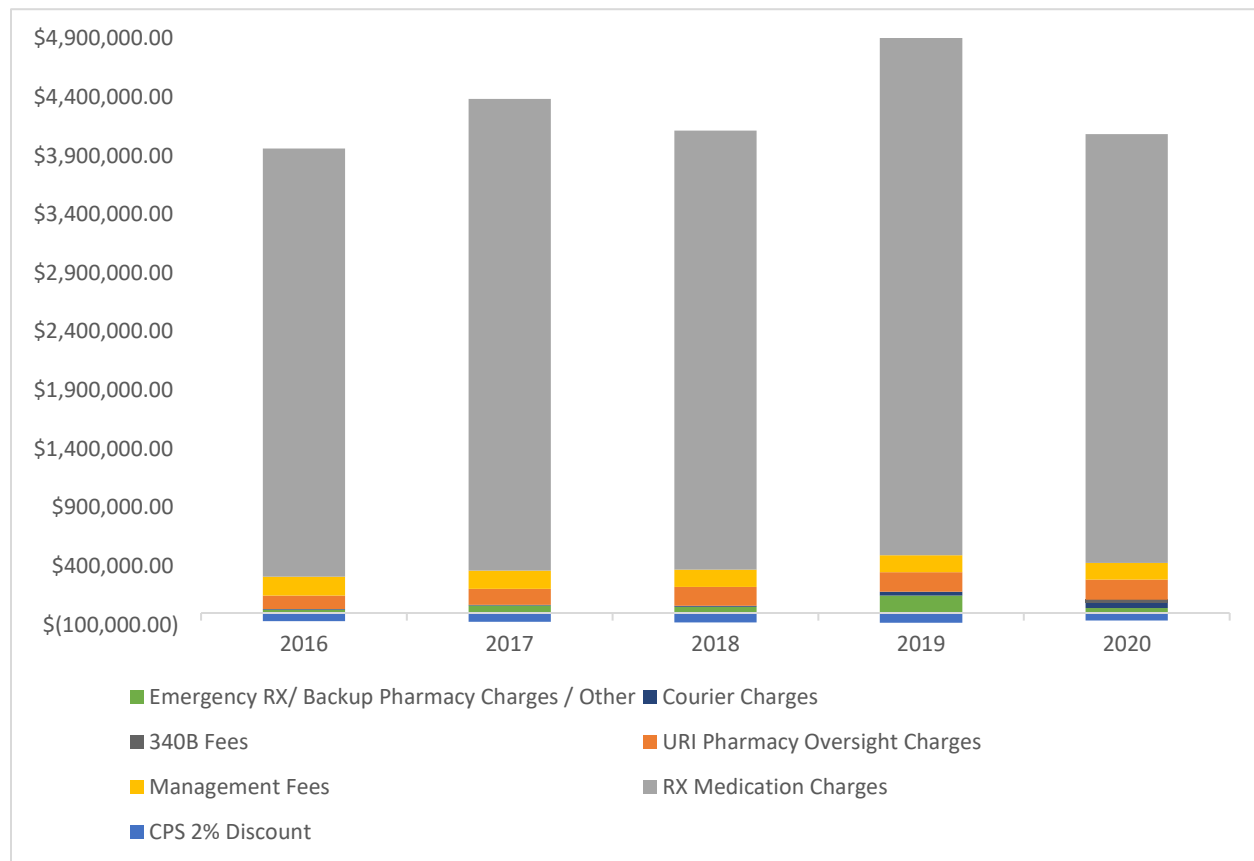
- \$3.9 million per year on medications (approximately \$325k per month),
- \$150k per year for management fees,
- \$65k per year for emergency medication and backup pharmacy charges,
- \$20k per year for courier charges, and
- \$2k per year in other charges for drug disposal and medical waste services,
- \$150K per year for URI pharmacy oversight costs.

Additionally, approximately \$25k was paid to CPS in FYE 2020 for the administration of the 340B Program fees. DOC also received the 2% discount from CPS on most of their invoices resulting in a total

² The 318 STD Clinic is a U.S. Department of Health and Human Services' Centers for Disease Control and Prevention (CDC) project funded under Section 318 of the Public Health Service Act for the prevention of sexually- transmitted diseases (STDs).

discount of \$375K for the 5-year period: a \$75k average discount per year. See Figure 1 below for a summary of fees over the five fiscal years evaluated.

Figure 1: Summary of DOC Pharmaceutical Spending for FYE 2016-2020



Management Fees

The monthly management fee³ is calculated by multiplying the average monthly inmate population by the charge rate per inmate which is based on the average number of prescriptions per inmate:

Average # of Prescriptions per Inmate	Charge per Inmate
< 2	\$ 3.90
2 - 3	\$ 4.35
> 3	\$ 4.55

CPS billed DOC a management fee rate of \$4.35 per inmate per month from April of 2015 through July of 2018 and \$4.55 per inmate per month from August of 2018 through June of 2021, respectively. This increase was despite a decline in the average inmate population of more than 3.5% percent from fiscal

³ Because the monthly management fee is prepaid the average inmate population from two months prior are used to calculate the monthly management fee.

years 2016 to 2020. Table 1 below shows the financial impact of the increase in the charge rate for management fees.

Table 1: Management Fees Charged for FY 2016-2020

Fiscal Year	Average Prescriptions	Average Monthly Rate	Annual Management Fees	Actual Average Inmate Population ⁴	Average Annual Management Fee Cost per Inmate
2016	2.4	\$4.35	\$161,733.00	3,067	\$52.73
2017	2.6	\$4.35	\$155,686.50	2,957	\$52.64
2018	2.7	\$4.36	\$146,737.65	2,784	\$52.72
2019	3.2	\$4.55	\$145,115.95	2,671	\$54.33
2020	3.5	\$4.55	\$142,474.15	2,544	\$56.01

The average annual management fee increased from \$52.73 per inmate in FYE 2016 to \$56.01 per inmate in FYE 2020.

Courier Charges

CPS outsources the next day delivery services required to transport the medications and supplies from their pharmacy to the seven DOC facilities on Mondays through Saturdays. These subcontractor billings are included on the CPS monthly invoices to DOC.

Although there was a decline in the average inmate population by more than 3.5% percent from fiscal years 2016 to 2020, there was an increasing fluctuation in the number of prescriptions filled, with an overall increase of more than 24% from 2016 to 2020. Table 2 below shows the financial impact of the increase in the courier charges attributed to the increase in prescriptions.

Table 2: Courier Charges for FY 2016-2020

Fiscal Year	Number of Prescriptions Filled for the Year	CPS Courier Charges	Actual Average Inmate Population	Average Annual Cost per Inmate
2016	87,286	\$6,044.76	3,067	\$1.97
2017	92,953	\$6,199.93	2,957	\$2.10
2018	90,449	\$9,415.52	2,784	\$3.38
2019	104,058	\$32,713.51	2,671	\$12.25
2020	108,249	\$45,793.55	2,544	\$18.00

The average courier charge per inmate increased from \$1.97 in FYE 2016 to \$18.00 in FYE 2020.

⁴ The Actual Average Inmate Population for the fiscal years were obtained by averaging the monthly average inmate population numbers presented on the monthly prepayment invoices from two months ahead. For example, the July average inmate population figure was obtained from the September prepayment invoice.

Rx Medication Costs

Medications listed on the DOC formulary are purchased from CPS or Cardinal (for the 340B Program) to be charged directly to DOC. Table 3 below shows the financial impact of the increase in the medication costs.

Table 3: Medications Purchased for FY 2016-2020

Fiscal Year	Average Inmate Population	CPS Medication Charges ⁵	Cardinal Medication Charges	Annual Cost	Average Annual Medication cost per Inmate
2016	3,067	\$3,651,310.54	\$0.00	\$3,651,310.54	\$1,190.35
2017	2,957	\$4,021,187.66	\$0.00	\$4,021,187.66	\$1,359.70
2018	2,784	\$3,745,569.66	\$0.00	\$3,745,569.66	\$1,345.59
2019	2,671	\$4,455,999.67	\$0.00	\$4,455,999.67	\$1,668.13
2020	2,544	\$3,246,887.88	\$411,914.91	\$3,658,802.79	\$1,438.40

Average annual medication cost per inmate increased from \$1,190.35 in FYE 2016 to \$1,438.40 in FYE 2020. As can be seen from the table, DOC realized significant savings by purchasing prescriptions from Cardinal as part of the 340B program.

Emergency Medications, Backup Pharmacy, & Other Charges

CPS subcontracts CVS Pharmacy to provide emergency medications. This local pharmacy provides same day prescriptions in emergency circumstances where inmates need medications in less than 24 hours. Additionally, CPS outsources for drug disposal and medical waste services that are billed as other charges on the invoicing. Table 4 below shows the financial impact of the fluctuation in emergency medications, backup pharmacy and other costs.

Table 4: Emergency Medications, Backup Pharmacy, & Other Charges for FY 2016-2020

Fiscal Year	Average Inmate Population	Emergency RX/ Backup Pharmacy Charges	Other Charges	Annual Costs	Average Annual Cost per Inmate
2016	3,067	\$27,417.40	\$0.00	\$27,417.40	\$8.94
2017	2,957	\$55,034.28	\$8,785.71 ⁶	\$63,819.99	\$21.58
2018	2,784	\$61,256.58	\$(8,785.71)	\$52,470.87	\$18.85
2019	2,671	\$137,955.47	\$10,754.50	\$148,709.97	\$55.67
2020	2,544	\$41,615.40	\$0.00	\$41,615.40	\$16.36

⁵ The CPS medication charges includes the medication costs, credits for medications billed but never received by DOC and credits to the billing for medication price adjustments.

⁶ CPS charge for March 2017 consultation services was credited back to DOC in August of 2017 because services were incorrectly billed by CPS and paid directly to the consultant by DOC separately.

The average total combined emergency medications, backup pharmacy and other charges fluctuated annually from FYE 2016 to FYE 2020.

URI Oversight & Utilization Review Service Charges

DOC pays URI a flat rate on a per month basis for the pharmacist services; however, the flat monthly rate increases at least annually via contract changes. Table 5 below shows the financial impact of the increase in the service cost.

Table 5: URI Oversight & Utilization Review Service Charges for FY 2016-2020

Fiscal Year	Average Inmate Population	Average Monthly Rate	Annual Cost	Average Annual Cost per Inmate
2016	3,067	\$9,591.54	\$115,098.48	\$37.52
2017	2,957	\$11,430.76	\$137,169.09	\$46.38
2018	2,784	\$13,359.50	\$160,314.04	\$57.59
2019	2,671	\$13,862.13	\$166,345.50	\$62.27
2020	2,544	\$14,385.87	\$172,630.48	\$67.87

Average annual URI oversight and utilization review service charges per inmate increased from \$37.52 in FYE 2016 to \$67.87 in FYE 2020.

Summary of all Charges

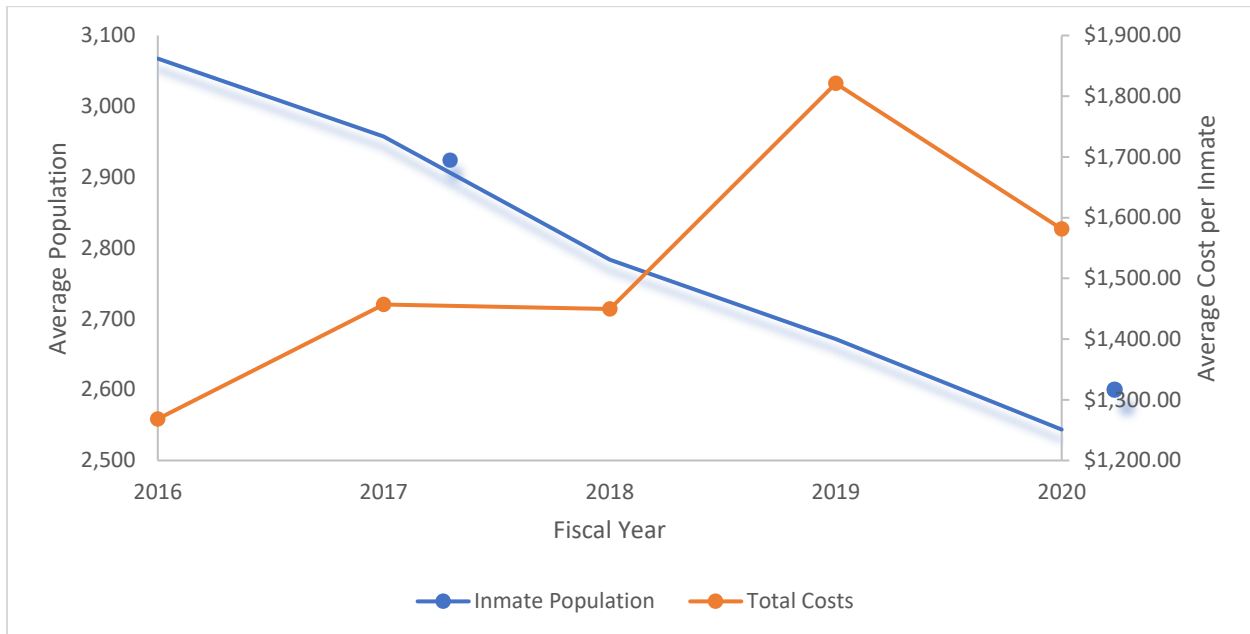
Although the average inmate population decreased, management fees, courier charges, medication costs and oversight costs significantly increased from FYE 2016 to FYE 2020. Table 4 below shows the financial impact of the increase in the total contract charges.

Table 6: Total Pharmaceutical Costs for FY 2016-2020

Fiscal Year	Average Inmate Population	CPS Payments	Cardinal Payments	URI Payments	Total Payments	Average Annual Cost per Inmate
2016	3,067	\$3,775,847.67	\$0.00	\$115,098.48	\$3,890,946.15	\$1,268.48
2017	2,957	\$4,171,021.68	\$0.00	\$137,169.09	\$4,308,190.77	\$1,456.74
2018	2,784	\$3,875,109.83	\$0.00	\$160,314.04	\$4,035,423.87	\$1,449.72
2019	2,671	\$4,698,055.89	\$0.00	\$166,345.50	\$4,864,401.39	\$1,821.02
2020	2,544	\$3,437,199.75	\$411,914.91	\$172,630.48	\$4,021,745.14	\$1,581.08

In total the average annual cost per inmate increased from \$1,268.48 in FYE 2016 to \$1,581.08 in FYE 2020. From this we can conclude that DOC is spending considerably more per inmate, as the contracted services are extended with the original providers. See Figure 2 that follows.

Figure 2: Inmate Population vs. Average Cost per Inmate



Recommendation - Costs Savings with MMCAP Options Available

With the State of Rhode Island’s limited resources, DOC must make maximum use of available revenues to achieve its mission. DOC may not have used their available resources in the most efficient manner by utilizing a different contract for pharmacy and prescription services than the contract models available through MMCAP Infuse.

An MMCAP Infuse representative evaluated the medication costs of DOC. Per the analysis, DOC could have obtained an estimated savings of 24.77% (\$691,116.87) in medication costs from 9/1/2019 thru 8/31/2020⁷ if they had used an MMCAP Infuse vendor for their prescription purchases. The savings was calculated by comparing DOC’s top 50 drugs by cost and top 50 drugs by quantity costs to what MMCAP Infuse would have charged and including the RI Department of Health’s wholesaler discount of 5.26% received on their purchases from 2/1/2021 thru 5/1/2021. Per the representative, there are also different price levels provided through the wholesaler’s (Cardinal Health) generics program for additional savings not represented in their estimated savings.

For 9/1/2019 through 8/31/2020, DOC incurred \$456,334.34 in excess costs related to contracting with the independent pharmacy and prescription service provider, CPS. See detailed breakout below:

CPS Monthly Management Fee	\$138,884.20
Estimated MMCAP Infuse Management Fee ⁸	(317,619.00)

⁷ The one-year period of 9/1/2019 through 8/31/2020 was selected for the cost savings analysis because it was the only period CPS prescription costs details were available for evaluation.

⁸ The average management fee on MMCAP Infuse vendor contracts is \$3 per prescription. Amount was determined by multiplying the 105,873 prescriptions purchased for the period by \$3.

Estimated Medication Costs Savings	691,116.87
2% Discount	(56,047.73)
Estimated Cost Avoidance	\$456,334.34

Although management fees would be higher than those currently paid to CPS, there would still be a cost avoidance for DOC if they converted to an MMCAP Infuse vendor contract due to the prescription discounts and lower prices received by the GPO.

Recommendation:

1. Consider converting the pharmacy services and prescription purchase agreement to an MMCAP Infuse vendor.

Management’s Response: The Department of Corrections has recently switched vendor services. Contract Pharmacy Services is no longer the pharmacy vendor. The new vendor, Diamond Pharmacy Services is listed as an MMCAP vendor and this new contract has resolved the findings listed above. Regarding the courier services and administrative fees:

- Routine courier services (from pharmacy to airport to DOC campus) are included in the administrative costs, but emergency and specialty drug courier fees are passed onto the DOC.
- The administrative fee is flat for five years.

It should also be noted that even though the population has decreased, more medication is being prescribed to patients due to their increased complexity.

Responsible Party: Dr. Justin Berk

Anticipated Completion Date: Completed

Auditor’s Note: DOC’s new vendor, Diamond Pharmacy Services is an approved MMCAP Infuse vendor; however, DOC is not participating in the MMCAP Infuse group purchasing organization and therefore, not receiving its full benefits.

Objective and Scope

The OIA completed this review and examined the model utilized by DOC to purchase prescription drugs and pharmacy services for inmates in Rhode Island correctional facilities to determine if DOC can obtain cost savings through modification of their existing pharmacy services and prescription model. The review period was July 1, 2015 through August 31, 2020.

Methodology

As part of our review and evaluation, we gained an understanding of MMCAP Infuse and the current DOC Pharmacy and Prescription Services contract. To address our objective, we performed the following:

- Reviewed the CPS purchase agreement, contract and all contract extensions for the DOC pharmacy and prescription services.
- Completed analytics of the DOC pharmacy and prescription services invoices from CPS, Cardinal Health and URI.
- Requested possible cost saving options along with estimates from MMCAP Infuse.
- Calculated estimated savings if DOC converted their purchasing agreement to the MMCAP Infuse model.

The results of this review are communicated within this report.