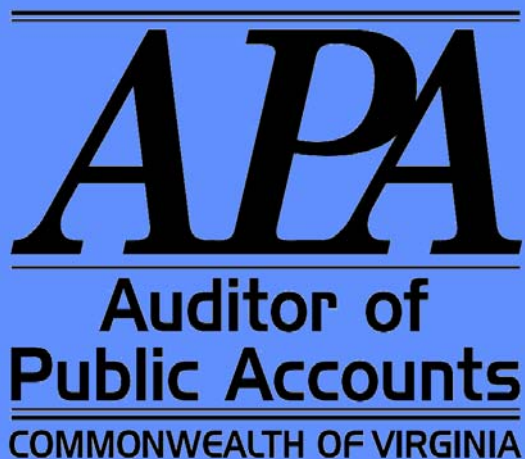


**REVIEW OF COMMONWEALTH MANAGEMENT
AND CONTROL OVER PHARMACEUTICALS**

**REPORT ON AUDIT
FOR THE YEAR ENDED
SEPTEMBER 30, 2008**



EXECUTIVE SUMMARY

Commonwealth spending for prescription medication grew by approximately 38.6 percent from \$112.3 million in 2001 to \$155.7 million in 2006. National spending on retail prescription pharmaceuticals increased by approximately 56.7 percent from \$138.3 billion to \$216.7 billion over that same period. Commonwealth pharmaceutical spending continued to grow to \$164.9 million in 2007 and slightly declined to \$161.1 million in 2008. National spending data is not yet available for that period. The Departments of Health, Mental Health, Mental Retardation and Substance Abuse Services, Corrections, and Juvenile Justice and the University of Virginia Medical Center account for 96 percent of Commonwealth spending on pharmaceuticals.

Our review determined that state operated pharmacies were generally compliant with federal and state pharmacy and controlled substances regulations and were utilizing available discount programs and contract alliances.

Our review of individual facilities resulted in the following findings and recommendations.

- The Chesterfield Health District should improve controls over the distribution of prescription medication to local health departments.
- The Virginia Department of Health Central Pharmacy should standardize its prescription procurement process in order to minimize errors.
- The Departments of Corrections and Juvenile Justice should consider a cooperative contracting arrangement for pharmacy services in order to obtain more favorable pricing and uniform controls over medications.

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INTRODUCTION

Commonwealth spending for prescription medication has grown by approximately 39 percent from \$112.3 million in 2001 to \$161.1 million in 2008. Several factors contribute to this increased spending, one of which is the increasing cost of prescription medication. However, rising costs are not the only factors that affect the Commonwealth's pharmaceutical spending.

Other factors affecting the increased spending include an aging population and the growing number of people using public health clinics. Also, an increase in the prison population and juvenile offenders has caused the Commonwealth to increase health services and related medication they provide in correctional institutions and juvenile correctional centers.

Increasing costs and recognition that these substances are becoming more susceptible to fraud, waste, or abuse led our Office to consider examining the control environment and operations of some of the Commonwealth's largest purchasers of prescription medication.

COMMONWEALTH AGENCIES

We reviewed the operations and controls for 14 pharmacies and pharmaceutical facilities within five agencies: The University of Virginia Medical Center (UVA Medical Center); Department of Health (Health); Department of Mental Health, Mental Retardation, and Substance Abuse Services (DHMRAS); Department of Corrections (Corrections); and Department of Juvenile Justice (Juvenile Justice).

University of Virginia Medical Center

The UVA Medical Center operates both an outpatient and an inpatient pharmacy. The Outpatient Pharmacy provides ambulatory care pharmacy services to patients treated at UVA clinics, discharged inpatients, and UVA employees who are also UVA Medical Center patients. The Inpatient Pharmacy provides medication to patients in the Medical Center receiving medical treatment, and the Satellite Infusion Center provides chemotherapy patients with treatment medication.

Department of Health

Health operates a Central Pharmacy to provide pharmacy services to 35 local health districts. These services include dispensing medication to individual patients, providing vaccines and other biological products to the public, and providing bulk medication (medication not prescribed to specific patients) for use in local health departments. Central pharmacy personnel also provide drug information services for local health department personnel and their patients and provide guidance and assistance in reviewing drug handling and storage procedures.

Seven of the 35 health districts have pharmacies: Roanoke, Fairfax, Alexandria, Chesterfield, Newport News, Hampton, and Norfolk. These pharmacies provide medications to individual health clinics in their area. Those health clinics then distribute the medications to patients. Our review includes the Chesterfield Health District Office and Health Central Pharmacy, which combined, account for 71 percent of Health's pharmaceutical purchases.

Department of Mental Health, Mental Retardation and Substance Abuse Services

DMHMRSAS provides a number of services to individuals in 16 state-operated facilities and community based programs. DMHMRSAS has a central office that provides oversight for the 16 facilities. The facilities provide most of their own administrative functions and provide direct service to the department's patients.

Our review includes DMHMRSAS's seven largest prescription pharmaceutical providers: Hiram W. Davis Medical Center and the Community Resource Pharmacy; Eastern State Hospital; Western State Hospital; Central Virginia Training Center; Southwestern Virginia Mental Health Institute; and Northern Virginia Mental Health Institute. These facilities combined, account for roughly 89 percent of the department's pharmaceutical purchases.

Department of Corrections

Corrections oversees the operation of 57 major institutions, field units, work centers, community corrections centers. Corrections provides medical, dental, and pharmaceutical services for incarcerated individuals in every correctional institution. Institutions have medical rooms for physician examinations and storage rooms to secure prescription medication.

Due to the relatively consistent value of pharmaceutical purchases among correctional units, we reviewed operations and controls for Haynesville and Deep Meadow Correctional Centers. These institutions comprise approximately 10 percent of the department's pharmaceutical purchases.

Department of Juvenile Justice

Juvenile Justice operates six juvenile correctional centers that provide incarcerated juveniles with 24-hour secure custody and supervision, medical treatment services, recreational services, and a variety of special programs. Each of the correctional centers maintains a storage room for prescription and non-prescription medication. Although the correctional centers do not maintain a pharmacy, they do store prescription medication and should maintain the same level of control as a pharmacy.

Due to the relatively consistent value of pharmaceutical purchases among correctional centers; we reviewed operations and controls for Hanover and Oak Ridge Juvenile Correctional Centers. These institutions comprise approximately 29 percent of the department's pharmaceutical purchases.

Table A summarizes the pharmaceutical spending for each of these agencies for fiscal years 2006 through 2008. *(see next page)*

Table A

	2006	2007	2008
University of Virginia Medical Center	\$ 60,750,073.75	\$ 65,623,300.51	\$ 69,271,516.59
Department of Health	38,309,032.20	51,698,520.07	41,372,480.16
Hiram W. Davis Medical Center ¹	26,282,371.94	14,845,293.16	17,031,354.19
Department of Corrections	11,374,087.16	12,630,346.18	13,225,463.39
Eastern State Hospital	4,084,171.71	4,434,582.49	3,715,829.93
Western State Hospital	2,553,088.76	2,822,028.73	2,605,499.25
Central Virginia Training Center	2,862,957.47	2,815,815.15	3,005,023.19
Southwestern Virginia Mental Health Institute	1,918,330.97	2,449,641.47	2,606,802.61
Northern Virginia Mental Health Institute	1,425,669.58	1,250,301.12	1,747,760.73
Department of Juvenile Justice	1,219,178.99	1,007,055.71	1,496,598.31
Total	<u>\$150,778,962.53</u>	<u>\$159,576,884.59</u>	<u>\$156,078,328.35</u>

¹In August 2005, the Department of Mental Health, Mental Retardation, and Substance Abuse Services split the Hiram Davis Medical Center pharmacy operations into two physically separate pharmacies. Hiram Davis Medical Center is responsible for the Petersburg campus and the new Community Resource Pharmacy is responsible for providing medications exclusively to Community Services Boards across the Commonwealth. The above expenditures are representative of both pharmacies.

CONTROLLED SUBSTANCE SCHEDULING

Controlled substances are regulated by Federal and State laws. These laws regulate the manufacture, sale, distribution, use, and disposal of all controlled substances. The Controlled Substances Act of the U.S. Constitution categorizes controlled substances into five schedules according to their medical use and potential for abuse. The Code of Virginia defines a sixth schedule.

Schedule I and II substances are those items having the highest potential for abuse and are the most regulated while Schedule V substances have the least potential for abuse. The Federal Drug Enforcement Administration defines each schedule as follows.

Schedule I substances have a high potential for abuse, have no currently accepted medical use in treatment in the United States (U.S.), and are substances considered unsafe under medical supervision. These substances are illegal in the United States.

Schedule II substances have a high potential for abuse, have currently accepted medical use in treatment in the U.S., and use of these substances may lead to severe psychological or physical dependence. These substances are obtainable by prescription only.

Schedule III substances have a potential for abuse less than those in Schedules I and II, have currently accepted medical use in treatment in the U.S., and abuse of these substances may lead to moderate or low physical dependence or high psychological dependence. These substances are also obtainable by prescription only.

Schedule IV substances have a low potential for abuse, have currently accepted medical use in the U.S., and abuse of these substances may lead to limited physical or psychological dependence. These substances are also obtainable by prescription only.

Schedule V substances have a low potential for abuse, have currently accepted medical uses in the U.S., and may lead to limited physical or psychological dependence relative to Schedule IV substances. Many of these substances are available over-the-counter.

Schedule VI substances are any medication not specified in the above schedules as designated by the Board of Pharmacy. This schedule includes substances that are not generally recognized among experts qualified to evaluate their safety and usefulness. They have a potential for harmful effects if used improperly.

PROCUREMENT OF PRESCRIPTION MEDICATION

There are a number of Federal and multi-state subsidy programs and purchasing consortiums to assist citizens and government entities in procuring affordable pharmaceuticals due to continuing increases in the price and growing demand by public entities. A description of the most accepted and used programs and contracting alliances in the Commonwealth follows.

Discount Programs and Subsidies

Federal 340B Drug Pricing Program

The Federal 340B Drug Pricing Program provides access to reduced price prescription drugs for health care facilities certified by the U.S. Department of Health and Human Services (HHS) as “covered entities.” The Health and the UVA Medical Center are “covered entities” and may participate in this program.

The program provides all covered entities access to use blanket HHS contracts with multiple prime pharmaceutical vendors. These prime vendors provide discounted prices to participants on a large number of medications. However, the medications available through this program do not include all medications needed by the participating agencies.

Medicare Part D Prescription Program

Medicare Part D is a federal health insurance program, that covers both brand-name and generic prescription drugs for Medicare-eligible citizens. Medicare prescription drug coverage helps these individuals who have high drug and/or unexpected medication drug cost.

With the implementation of the Medicare Part D Program, prescription costs have decreased for Health. People may now obtain prescriptions from retail pharmacies rather than local health department clinics. DMHMRSAS and Health may also bill Medicare for payment of prescriptions required by their patients, as applicable.

Pharmaceutical Contracts

Minnesota Multistate Contracting Alliance for Pharmacies (MMCAP)

The Minnesota Multistate Contracting Alliance for Pharmacies (MMCAP) is a free, voluntary group purchasing organization operated and managed by the Materials Management Division of the State of Minnesota's Department of Administration for government healthcare

facilities. Currently, MMCAP consists of 45 states and the cities of Chicago and Los Angeles. MMCAP limits participants to “governmental units” as defined by the Minnesota Statute authorizing the alliance. Juvenile Justice is ineligible to participate in the contracting alliance because they do not have a qualifying pharmacy.

MMCAP provides participants the opportunity to select from three contracted distributors who MMCAP evaluated as providing quality services at reasonable cost. Currently, the Commonwealth has established a state contract with Cardinal Health for agencies participating in MMCAP.

University Health System Consortium

The UVA Medical Center is a member of the University Health System Consortium (Consortium). The Consortium is an alliance of 102 academic medical centers and 184 of their affiliated hospitals representing approximately 90 percent of the nation’s non-profit academic medical centers. The Consortium provides a means for academic Medical Centers to pool resources and collaborate with one another. As a member, the Medical Center also participates in a number of contracts with prime vendors and receives favorable pricing on a large number of pharmaceuticals.

Pharmacy Services Contracts

A number of Juvenile Justice and Corrections facilities administer medications to individuals but do not have pharmacists on staff; therefore these facilities contract for pharmacy services. Pharmacy services contracts include administrative services as part of the purchase price of the medications. Juvenile Justice and Corrections facilities using these contracts receive: access to a consulting pharmacist; formulary management; on-line computer access to individual medication profiles; substitution of brand name medication with generic medication; next -day delivery; disposal services for expired and discontinued substances; and a number of usage reports.

The majority of correctional institutions (47) contract with Diamond Pharmacy Services (Diamond) to supply medication. Corrections pays Diamond a monthly rate per inmate to cover the cost of medication included on a preferred list of medications. Anthem acts as a third-party administrator for off-site medical claims and for all medication not on the preferred list with Diamond. For these medications, Anthem pays Diamond and bills Corrections for reimbursement. The remaining correctional institutions contract with two vendors: Prison Health Services and Armor Correctional Health Services for complete medical, dental, and mental health services including necessary medicines with the exception of HIV, Hepatitis C, and Hemophilia. These medications are obtained through Virginia Commonwealth University Health Services.

At the time of our review, all Juvenile Justice facilities contracted with Maxor Correctional Pharmacy Services (Maxor) to provide pharmacy services. Unlike correctional facilities, where inmates come to a pill room window to receive medication; Juvenile Justice facilities deliver medication directly to youths. Maxor also provides facilities with medication carts with locked drawers to facilitate secure delivery by nurses. Juvenile Justice, upon expiration of the current contract on June 30, 2008, entered into a contract with Westwood Pharmacy on July 1, 2008 for pharmacy services for all correctional facilities.

INVENTORY MANAGEMENT AND CONTROL

Physical Safeguards

The U.S. Controlled Substances Act (enforced by the U.S. Drug Enforcement Administration) and the Code of Virginia (enforced by the Virginia Board of Pharmacies) has established security regulations for securing controlled substances and physical safeguards at pharmacies. Controlled substance regulations include background checks for all pharmacy personnel, separate storage for Schedule II controlled substances, and secure locked storage for all controlled substances.

Pharmacy industry best practices suggest additional securities such as periodic or annual reviews for expired medication, routine inspection of storage areas, and security cameras located in or around the pharmacy. Best practices, although not required, provide additional control over the security of prescription medication at facilities.

We observed a variety of regulations and best practices at selected pharmacies and other facilities. Our review found that the facilities generally comply with state and federal laws regarding the security of pharmaceutical inventories, but we did have a recommendation to improve internal control at the Chesterfield Health Department. Please see Appendix A for a complete list of regulations and best practices reviewed at each of the 14 facilities.

Finding 1:

The Chesterfield Health Department Should Improve Controls to Ensure Secure Delivery of Controlled Substances to Satellite Health Clinics.

The Chesterfield Health Department pharmacy serves as a hub distributor to other local Health Departments in the region. When shipping controlled substances to satellite offices, the pharmacy does not include a list of medication in the packages. Including a list of medication in the package helps provide assurance that the local health departments received all of the medications. Any variances between the list and the contents of the package could suggest theft or error. Under current procedures a local health department cannot determine the completeness of a shipment. We recommend that the pharmacy include in their delivery packages a list of the medication, dosage, and quantity shipped in order to mitigate the risk of error or abuse.

Inventory Counts

Inventory counts are essential to maintain control over any inventory, especially an inventory of medications. Both Federal and State laws require a biennial physical inventory of controlled substances Schedules II through V at the pharmacy or facility handling controlled substances. In fact, best practices suggest more frequent physical inventories depending upon the size and nature of substances stored. Best practices in the pharmacy industry suggest a monthly physical inventory for Schedule II controlled substances because of their high susceptibility to theft and/or abuse.

Federal and State laws also require that records of Schedule II controlled substances be stored separately from other medication records; and that all records of purchases, disposals, and administration of substances be maintained for at least two years.

Our review found varying degrees of inventory counts from as frequently as multiple daily counts at Juvenile Justice and Corrections to once per year at the Chesterfield Health District. Although federal and state regulations require only a biennial physical inventory, a number of facilities should consider performing test counts more frequently in order to detect and resolve discrepancies more timely and reduce the risk of theft and abuse. Considerations for determining the frequency of physical inventory checks should not only consider the dollar value of the inventory but qualitative risks as well.

Our review found differences in the purchasing of pharmaceuticals across many of the State Institutions. While UVA Medical Center utilizes automatic reordering systems, the other facilities reviewed rely on manual ordering processes. Mental Health and Health utilize their respective contractor's ordering system while Juvenile Justice and Corrections have outsourced their pharmacy operations.

Finding 2:

The Department of Health's Central Pharmacy Should Improve Inventory Control and Efficiency by Standardizing Pharmaceutical Orders.

The Central Pharmacy does not have an efficient procedure for documenting pharmacist purchase requests. Unclear purchase requests can lead to purchasing the incorrect medication or purchasing incorrect quantity and dosage of medication. Time is wasted correcting errors and returning unnecessary drugs to the vendor. We recommend that the pharmacy standardize their procurement process to minimize future errors. The process should provide for a consistent and clear means to request specific medications needed for purchase.

Continuous Monitoring

State law provides that no pharmacist should supervise more than four technicians at any given time and that pharmacies have a pharmacist-in-charge at all times. The Virginia Board of Pharmacy performs inspections of pharmacies every two to three years. We reviewed Board of Pharmacy inspections for the 12 facilities within the scope of our audit to determine whether all pharmacies complied with federal and state pharmacy and controlled substance regulations. The Juvenile Justice Centers are not pharmacies and therefore not subject to review by the Board of Pharmacy.

Automated Inventory Management Systems

Most agencies do not have an automated inventory management system due to system costs and their relative inventory size. Of those agencies within the scope of our review, only the UVA Medical Center has a completely automated inventory system. DMHRSAS is working to implement an automated inventory management system at all of their facilities; however, the Central Virginia Training Center pharmacy is the only facility currently using the pilot system.

The UVA Medical Center has automatic dispensing devices at each nursing unit. The devices maintain a perpetual balance of each medication and track all receipts and dispensing of pharmaceuticals directly at each nursing unit. The pharmacy also uses an automated system for central pharmaceutical storage management. This system also automates the reordering process for pharmacists.

The current pilot system for inventory management at Central Virginia Training Center provides for automated inventory management including individual item tracking and automated re-ordering. The system, once it is rolled out to the remaining facilities, will improve tracking capabilities and control over pharmaceutical inventory as well as improve ordering efficiency for all DMHMRSAS facilities.

Although automated inventory systems are costly, they provide an added level of control and efficiency for inventories. A system, when properly used can mitigate the risk of errors, fraud, and abuse, but is not feasible for agencies with minimal inventory stock. Our review found that the only facility with sizeable stock that did not have an automated inventory system was Health's Central Pharmacy which keeps manual records of inventory.

Analysis of Medication Costs

We analyzed the various discount programs and contract prices used by each agency. As discussed earlier, certain agencies are not able to participate in some discount programs. Considering the restrictions on participation in discount programs and multi-state contracts, our cost analysis considered only those institutions which were comparable: Juvenile Justice and Corrections.

Our analysis included the 50 most commonly used medication costs for both Juvenile Justice and Corrections. We found that generally prices between contracts were similar; however, Juvenile Justice Facilities received favorable pricing on anti-psychotic and attention deficit disorder medication, while Correctional Facilities received favorable pricing on stomach and blood-pressure medication. Because of the varying population characteristics and varying medication demands for the two types of facilities, the current contract pricing appears appropriate.

Although the current pricing appears appropriate, Juvenile Justice and Corrections have not made an attempt to partner together in procuring pharmacy services in the past. Therefore, it is unknown if more favorable pricing might be obtained through a coordinated effort to procure such services. A coordinated effort would most likely require the consolidation of both agencies' formularies and the combining of both agencies' required administration procedures.

Finding 3:

The Departments of Corrections and Juvenile Justice Should Consider A Cooperative Contracting Arrangement for Pharmacy Services in order to Obtain More Favorable Pricing and Uniform Controls over Medication.

The Departments of Corrections and Juvenile Justice have not considered the consolidation of pharmacy services contracts in an effort to receive more favorable pricing. Although current pricing appears appropriate based on population characteristics and medication demand, it is unknown if more favorable pricing might be obtained through a coordinated effort to procure pharmacy services.

The Departments of Corrections and Juvenile Justice should consider partnering in developing a request for proposal for a complete single source for pharmacy services in an attempt to receive more favorable pricing and uniform controls over pharmacy administration. A coordinated effort would most likely require the consolidation of both agencies' formularies and some conformity between both agencies' required controlled substance administration procedures.

CONCLUSION

Overall, we found that Commonwealth institutions generally operate under similar policies and procedures for medication purchasing and management; however, Juvenile Justice and Correctional facilities must meet less stringent requirements as they are not technically pharmacies. We also found that Commonwealth pharmaceutical purchasing and handling procedures generally conform to applicable regulations and best practices in the pharmacy industry with the exception of "Findings 1 and 2." Finally, we found that Commonwealth institutions take advantage of available prescription drug discount programs and participate in shared contracts to obtain favorable pricing where feasible, except for the possible opportunity described in "Finding 3."



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

September 30, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the management and controls over Commonwealth operated pharmacies and prescription medication storage and dispensing facilities and are pleased to submit our report entitled Review of Commonwealth Management and Control over Prescription Medication. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our objectives for this review were to:

- obtain an understanding of the procurement and inventory management for medications at Commonwealth pharmacies and other institutions;
- compare pharmacy and medication purchasing and handling operations across Commonwealth institutions;
- compare Commonwealth medication purchasing and handling procedures to best practices in the pharmacy industry; and
- determine whether Commonwealth institutions take advantage of available discount programs and share knowledge and resources.

Scope and Methodology

Our review examined purchasing and inventory control operations for the largest medication purchasing agencies in the Commonwealth. We conducted on-site reviews of 14 pharmacy and medication handling institutions in the Commonwealth. Our work included the operations for the following institutions.

- Department of Health
 - Virginia Department of Health Central Pharmacy
 - Chesterfield Health District

- University of Virginia Medical Center Pharmacy
- Department of Mental Health, Mental Retardation, and Substance Abuse Services
 - Hiram W. Davis Medical Center
 - Eastern State Hospital
 - Northern Virginia Mental Health Institute
 - Southwestern Virginia Mental Health Institute
 - Western State Hospital
 - Central Virginia Training Center
 - Community Resource Pharmacy
- Department of Corrections
 - Haynesville Correctional Center
 - Deep Meadow Correctional Center
- Department of Juvenile Justice
 - Hanover Juvenile Justice Center
 - Oak Ridge Juvenile Justice Center

Our work consisted of management inquiries, review of federal and state controlled substance and pharmacy regulations, examination of multiple agency policies and procedures, examination of multiple prescription medication and pharmacy services contracts, observation of inventory and purchasing processes and controls at the facilities listed above, and analysis of controlled substance costs across multiple contracts.

Conclusion

Overall, we found that Commonwealth institutions generally operate under similar policies and procedures for medication purchasing and management; however, Juvenile Justice and Correctional facilities must meet less stringent requirements as they are not technically pharmacies. We also found that Commonwealth pharmaceutical purchasing and handling procedures generally conform to applicable regulations and best practices in the pharmacy industry with the exception of those findings described in “Findings 1 and 2.” Finally, we found that Commonwealth institutions take advantage of available prescription drug discount programs and participate in shared contracts to obtain favorable pricing where feasible, except for the possible opportunity described in “Finding 3.”

Exit Conference and Report Distribution

We discussed this report with the management of all of the agencies under review who chose to meet during the week of September 15, 2008. Management responses from those agencies have been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AWP/alh

AGENCY RESPONSES

After completion of the review, all State agencies and other entities involved are given the opportunity to comment on an exposure draft of the report as well as provide a formal response to the final report. Appropriate technical corrections resulting from comments provided by these entities have been made in the final report. The written responses of those Agencies who chose to provide them follow.



Barry R. Green
Director

COMMONWEALTH of VIRGINIA

Department of Juvenile Justice

October 21, 2008

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7th and Franklin Streets
P.O. Box 1110
Richmond, Va 23218-1110
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Mr. Walter Kucharski
Auditor of Public Accounts
James Monroe Building
101 North 14th Street
Richmond, Virginia 23219

Dear Mr. Kucharski:

The Department of Juvenile Justice has had the opportunity to review your report entitled "Review of Commonwealth Management and Control Over Prescription Medication."

We would like to comment on finding #3, "The Departments of Corrections and Juvenile Justice should consider a cooperative contracting arrangement for pharmacy services in order to obtain more favorable pricing and more uniform controls over medications". As your report indicates, "A coordinated effort would most likely require the consolidation of both agencies' formularies and some conformity between both agencies' required controlled substance administration procedures."

The Departments of Juvenile Justice and Corrections serve different population demographics varying in the types of medical problems most commonly seen and treated by health care programs within each agency. Comparison of medication costs, as indicated by your report, serves in part to demonstrate that contracts utilized by the Departments of Juvenile Justice and Corrections produce favorable cost results when examining the medications utilized by each agencies' medical programs.

Based on your recommendation above, the Department of Juvenile Justice and the Department of Corrections will review formularies and contractual provisions specific to agency related requirements associated with the delivery of pharmacy services to determine the most cost-effective method of procuring pharmaceutical services. Procurement action will be pursued should the review lead to a finding that functioning under a jointly issued contract meets the requirements and proves fiscally advantageous to both agencies.

Sincerely,

A handwritten signature in black ink, appearing to read "Barry R. Green".

Barry R. Green

BRG/TJ/dch



COMMONWEALTH of VIRGINIA

GENE M. JOHNSON
DIRECTOR

Department of Corrections

P. O. BOX 26963
RICHMOND, VIRGINIA 23261
(804) 674-3000

October 16, 2008

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for the opportunity to respond to the *Review of Commonwealth Management and Control over Prescription Medications* performed by the Auditor of Public Accounts.

The Department of Corrections appreciates the effort involved and the recommendation that the Department of Corrections and the Department of Juvenile Justice consider a cooperative contracting arrangement for pharmacy services in order to obtain more favorable pricing and uniform controls over medications.

Again, thank you for the valuable information provided.

Sincerely,

A handwritten signature in black ink, appearing to read "Gene M. Johnson".

Gene M. Johnson

GMJ/WSN/dlc

Attachment

OCT 21 '08 AM 10:11

RESPONSIBLE OFFICIALS

Board of Visitors of University of Virginia Medical Center
Thomas F. Farrell, II, Rector

Secretary of Health and Human Resources
Marilyn Tavenner

Secretary of Public Safety
John W. Marshall

University of Virginia
John T. Casteen III, President

Department of Health
Karen Remley, M.D, Commissioner

Department of Mental Health, Mental Retardation, and Substance Abuse Services
James Reinhard, M.D., Commissioner

Department of Corrections
Gene M. Johnson, Director

Department of Juvenile Justice
Barry R. Green, Director

Pharmacy Directors

Nancy Cook (retired), Hiram W. Davis Medical Center
Pam Hendrick, Community Resource Pharmacy
Teresa Pigue, Central Virginia Training Center
Kimberlyn Griswold, Eastern State Hospital
Mary Love, Northern Virginia Mental Health Institute
James Suhrbier, Southwestern Virginia Mental Health Institute
Rita Lewis, Western State Hospital
Philip Teixeira (interim), University of Virginia Medical Center
Brenda Earley, Chesterfield Health District
Roland Craig Parrish, Virginia Department of Health Central Pharmacy

William Nicholson, Pharmacy Supervisor
Department of Corrections

Superintendents

Katherine Dickerson, Oak Ridge Juvenile Correctional Center
Sharon Havens, Hanover Juvenile Correctional Center

APPENDIX A

Appendix A: Best Practice and Control Summary Matrix

Legend:	✓	Control, compliance requirement, or best practice exists.
	✗	Control, compliance requirement, or best practice does not exist.
	N/A	Control, compliance requirement, or best practice is not applicable to the institution.
	A	Although Southwest Virginia Mental Health Institute (SWVMHI) follows consistent procedures for pharmaceutical receipt, distribution, and inventory management; the facility does not have documented policies or procedures. Since this review, SWVMHI as documented their policies and procedures.

		UVA Medical Center	VDH Central Pharmacy	Chesterfield Health District
Procedures				
Pharmacy Security				
1	Criminal back ground checks are performed for personnel who have access to controlled substances to ensure they have not been convicted of a felony related to controlled substances. (Controlled Substances Act)	✓	✓	✓
2	Background checks ensure personnel have not been convicted of a felony within the past five years, or a misdemeanor within the past two years. (Controlled Substance Act)	✓	✓	✓
3	All personnel DEA registrations are reviewed. (Controlled Substances Act)	✓	✓	✓
4	The pharmacy has a working alarm system. (Code of Virginia)	✓	✓	✓
5	The pharmacy has security cameras located in or around the premises. (Best Practice)	✓	✓	✗
6	Access to the alarm is limited to pharmacy staff. (Code of Virginia)	✓	✓	✓
7	Schedule of Controlled Substances Area Locks:			
a)	If operations require the cabinet where schedule controlled substance II are stored to remain open for frequent access; doors have a day gate which is self-closing and self-locking. (Controlled Substance Act)	N/A	✓	N/A
b)	If schedule controlled substances III - V are kept in large quantities; the storage area has self-locking and closing doors. (Controlled Substance Act)	N/A	✓	N/A
8	The pharmacy routinely inspects storage areas. (Best Practice)	✓	✓	✓
9	Pharmaceuticals are maintained in a lockable cabinet, cart, device, or other area which is locked when not in use. (Code of Virginia)	✓	✓	✓

Physical Safeguards				
1	Refrigerator where drugs are stored is in working order. (Code of Virginia)	✓	✓	✓
2	Refrigerator where drugs are stored has a working monitoring thermometer. (Code of Virginia)	✓	✓	✓
3	Storage refrigerators are restricted to drug storage only. (Code of Virginia)	✓	✓	✓
4	Schedule of Controlled Substance II drugs are stored separately from other drugs. (Code of Virginia)	✓	✓	N/A
5	Stock of Schedule II through V drugs are secured in a working, undamaged, lockable cabinet. (Code of Virginia)	✓	✓	✓
6	The facility performs an annual review for expired drugs. (Best Practice)	✓	✓	✓
7	Expired drugs are maintained separately from the stock used for dispensing. (Code of Virginia)	✓	✓	✓
8	Pharmaceutical records are filed chronologically. (Code of Virginia)	✓	✓	✓
9	Paper copies of prescriptions are maintained for recordkeeping purposes.	✓	✓	✓
10	Prescriptions for Schedule of Controlled Substance II drugs are securely transmitted to the pharmacy. (Code of Virginia)	✓	✓	✓

Hiram W. Davis Medical Center	Community Resource Pharmacy	Eastern State Hospital	Western State Hospital	Central Virginia Training Center	Southwest Virginia Mental Health Institute	Northern Virginia Mental Health Institute	Haynesville Correctional Center	Deep Meadow Correctional Center	Oak Ridge Juvenile Correctional Center	Hanover Juvenile Correctional Center
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A
✗	✗	✗	✓	✗	✗	✓	✓	✗	✓	✗
✓	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A
✓	N/A	N/A	N/A	N/A	N/A	✓	N/A	✓	N/A	N/A
✓	✓	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	N/A
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Appendix A: Best Practice and Control Summary Matrix

Legend:	✓	Control, compliance requirement, or best practice exists.
	✗	Control, compliance requirement, or best practice does not exist.
	N/A	Control, compliance requirement, or best practice is not applicable to the institution.
	A	Although Southwest Virginia Mental Health Institute (SWVMHI) follows consistent procedures for pharmaceutical receipt, distribution, and inventory management; the facility does not have documented policies or procedures. Since this review, SWVMHI as documented their policies and procedures.

		UVA Medical Center	VDH Central Pharmacy	Chesterfield Health District
Policies and Procedures				
1	Policies and procedures provide guidance for how physical inventory should be performed. (Best Practice)	✓	✓	✓
2	Policies dictate when a physical inventory count is to be taken. (Best Practice)	✓	✓	✓
3	There is a process for recording inventory (including standard forms to be completed, data entry, or electronic documentation). (Best Practice)	✓	✓	✓
4	Guidance is provided regarding how to properly store controlled substances. (Best Practice)	✓	✓	✓
5	Policies provide measures for securing pharmaceuticals. (Best Practice)	✓	✓	✓
6	Policies describe how to account for pharmaceuticals returned to the pharmacy. (Best Practice)	✓	✓	N/A
7	Policies address who may access prescription drugs. (Best Practice)	✓	✓	✓
8	Policies for requesting orders for prescription drugs exist. (Best Practice)	✓	✓	✓
9	Policies for receiving prescription drug shipments exist. (Best Practice)	✓	✓	✓
10	Policies for dispensing prescription drugs to patients exist. (Best Practice)	✓	✓	✓
11	Job responsibilities in the policies and procedures offer segregation of duties. (Best Practice)	✓	✓	✓
12	Policies and procedures address the responsibilities of each job title. (Best Practice)	✓	✓	✓
13	Policies and procedures provide guidance for reconciling physical inventory counts to inventory records. (Best Practice)	✓	✓	✓

Inventory				
1	A biennial physical inventory of all control substances is performed. (Controlled Substances Act & Code of Virginia)	✓	✓	✓
2	Inventory is taken at least monthly for Schedule II Controlled Substances. (Best Practice)	✓	✗	N/A
3	Pharmacy managers consider the nature and size of pharmaceutical inventories in determining the frequency and extent of inventory counts. (Best Practice)	✓	✓	✓
4	Records of all purchases, disposals, and administration of controlled substances are maintained for at least 2 years. (Controlled Substances Act)	✓	✓	✓
5	Inventory counts are reviewed and signed by authorized personnel. (Best Practice)	✓	✓	✓
6	Physical inventory counts are signed and dated by the person(s) taking the inventory and records indicate when the inventory was taken. (Code of Virginia)	✓	✓	✓
7	The pharmacy uses a perpetual inventory methodology. (Best Practice)	✓	✓	✓
8	Policies and procedures provide guidance for reconciling physical inventory count to inventory records. (Best Practice)	✓	✓	N/A
9	Schedule II Controlled Substance records are maintained separately from other drug records. (Code of Virginia)	✓	✓	✓

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✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	N/A	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	N/A	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	N/A	✓	✓	✓	A	✓	✓	✓	✓	✓

✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	N/A	✓	✓	✓	✓	N/A	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
N/A	✓	✓	✓	✓	A	✓	✓	✓	✓	✓
✓	N/A	✓	✓	✓	✓	✓	✓	✓	✓	✓

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		UVA Medical Center	VDH Central Pharmacy	Chesterfield Health District
10	Executed order forms, prescriptions, and inventories of Schedule II through V medication are maintained at the same location as the stock of medication to which the records pertain. (Code of Virginia)	✓	✓	✓

Procurement

1	The pharmacy participates in the federal 340B discount drug program. (Best Practice - where eligible)	✓	✓	✓
2	The pharmacy participates in eligible multi-state or group programs. (Best Practice)	✓	✓	✓
3	The pharmacy purchases bulk orders where economically feasible. (Best Practice - large facilities)	✓	✓	N/A

System(s)

1	The pharmacy uses a computerized system for processing prescriptions. (Code of Virginia)	✓	✓	✓
2	The pharmacy uses automated counting devices or dispensers (Best Practice).	✓	✗	✗
3	The pharmacy uses an automated inventory system. (Best Practice)	✓	✗	✗
4	The automated inventory management system provides (Best Practice):			
a)	a means to dispense data;	✓	N/A	N/A
b)	re-order point and/or reorder quantities;	✓	N/A	N/A
c)	daily reports of drugs on hand;	✓	N/A	N/A
d)	multiple levels of user access to the system;	✓	N/A	N/A
e)	activity tracking for users (audit trail);	✓	N/A	N/A
f)	valuation of inventory;	✓	N/A	N/A
g)	inventory receipting capabilities.	✓	N/A	N/A
5	Systems have password access security. (Best Practice)	✓	✓	N/A
6	Passwords expire at least every 60 days. (Best Practice)	✓	✓	N/A
7	Passwords are developed to lock-out user after at least 3 attempts. (Best Practice)	✓	✓	N/A

Record-keeping

1	The ordering system, electronic or otherwise, provides retrieval of the original prescription information for those prescriptions which are currently authorized for dispensing. (Code of Virginia)	✓	N/A	✓
2	The system, electronic or otherwise, maintains a 2 year dispensing history for prescriptions. (Code of Virginia)	✓	✓	✓
3	The system, electronic or otherwise, documents the recording of prescriptions and the time and date of the entry/prescription. (Code of Virginia)	✓	✓	✓

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✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗
✓	✓	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A

✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✗	✓	✗	✗	✗	✗	✗	N/A	N/A	N/A	N/A
✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗

N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	N/A
✗	✓	✗	✓	✗	✓	✓	✓	✓	N/A	N/A
✗	✓	✓	✓	✗	✓	✓	✓	✓	N/A	N/A

✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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4	The system, electronic or otherwise, provides for retrieval of all dispensing data. (Code of Virginia)	✓	✓	✓

Monitoring

1	The pharmacy is inspected by the VA Board of Pharmacy. (Code of Virginia - for pharmacies only)	✓	✓	✓
2	The facility monitors prescription patent expiration dates. (Best Practice)	✓	✓	✓
3	The facility has a method for tracking drug-use patterns. (Best Practice)	✓	✓	✓
4	The pharmacy has a pharmacist in charge at all times. (Code of Virginia)	✓	✓	✓
5	Pharmacist in-charge does not supervise more than 4 technicians. (Code of Virginia)	✓	✓	✓

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✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓	✓	✓	✓	✓	✓	✓	✓	✓	N/A	N/A
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A
✓	✓	✓	✓	✓	✓	✓	N/A	N/A	N/A	N/A