

State of Washington  
Joint Legislative Audit & Review Committee (JLARC)



# **Performance Audit of the Prescription Drug Purchasing Consortium**

**Report 08-9**

October 22, 2008

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### **Committee Approval**

On October 22, 2008, this report was approved for distribution by the Joint Legislative Audit and Review Committee.

### **Acknowledgements**

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**Performance  
Audit of the  
Prescription  
Drug Purchasing  
Consortium  
Report 08-9**

**October 22, 2008**



STATE OF WASHINGTON

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## REPORT SUMMARY

### The Prescription Drug Purchasing Consortium

Concerned with rising prescription drug costs, in 2005 the Washington State Legislature authorized the creation of the Prescription Drug Purchasing Consortium. The Legislature directed the Health Care Authority to establish and administer the Consortium and required eight state-purchased health care programs to participate in the Consortium, unless exempted. The Consortium was intended to be a vehicle that combined the purchasing power of state programs and other interested parties and could be used to help contain prescription drug costs. It was also intended to provide greater access to prescription drugs at lower costs for uninsured and underinsured individuals.

The legislation authorizing the Consortium also directed the Joint Legislative Audit and Review Committee (JLARC) to conduct a performance audit of the Consortium.

The report examines three topics:

- **Compliance** with statutory requirements;
- Whether there have been **cost savings**; and
- Whether there have been **health outcome improvements**.

### Compliance with Statutory Requirements

The Health Care Authority (HCA) has established the Prescription Drug Purchasing Consortium and is in compliance with most of the statutory requirements. Statute designates eight state-purchased health care programs to participate in the Consortium. However, six of these programs are not doing so and have not demonstrated to HCA that they can achieve greater cost savings through other arrangements. When the necessary cost analyses have been completed, HCA will need to determine if these six state programs should be exempted from the requirements to participate in the Consortium. Currently, only the Uniform Medical Plan and the Department of Labor and Industries participate in the Consortium.

### Have There Been Cost Savings as a Result of the Consortium?

The Uniform Medical Plan estimates that it has avoided approximately \$1.8 million in additional prescription drug costs in the first six months of 2008 through the Consortium. The Department of Labor and Industries has not had any significant changes in prescription drug expenditures since joining the Consortium. The Health Care Authority reports that Discount Card members have saved more than \$4.3 million in prescription drug purchases – a 43 percent savings off the non-discount price since the Discount Card became available in February 2007.

## **Have Health Outcomes Improved as a Result of the Consortium?**

There is no way to know if there have been any changes in health outcomes directly due to the implementation of the Consortium. Some changes in health status may have occurred for Discount Card members because of improved access to prescription drugs, but this is unknown. For Uniform Medical Plan enrollees and Labor and Industries claimants, it is highly unlikely that there have been any health outcome changes because implementing the Consortium did not change members' access to prescription drugs nor did it change the method by which the two programs purchase prescription drugs.

## **Findings**

The Departments of Corrections; Veterans Affairs; Health; and Social and Health Services/ Health and Recovery Services Administration are not participating in the Consortium and have not demonstrated that they can achieve greater discounts and aggregate savings from federal programs or other purchasing arrangements. Because the required cost analyses for six state programs have not been completed, the Health Care Authority has not made determinations about whether these programs must participate in, or should be exempted from participation in, the Consortium. Additionally, because the prescription drug supply system and drug purchasing arrangements are not static, and factors impacting drug costs are likely to change after the initial cost analyses are completed and determinations about participation are made, periodic updated cost analyses and determinations about participation would be beneficial.

### **Recommendation 1**

The Departments of Corrections; Veterans Affairs; Health; and Social and Health Services/ Health and Recovery Services Administration should complete the required analyses that demonstrate whether or not the six state fee-for-service health care programs they administer can achieve greater discounts and aggregate savings as a result of federal programs or other purchasing arrangements than would be realized through participation in the state's Prescription Drug Purchasing Consortium.

### **Recommendation 2**

Based on the analyses conducted by the state agencies, the Administrator of the Health Care Authority should make a determination whether each of these state programs is required to participate in, or is exempt from participation in, the state's Prescription Drug Purchasing Consortium, and report the determinations to JLARC.

### **Recommendation 3**

The Health Care Authority should periodically conduct updated cost analyses to determine whether each of the state programs should continue to participate in, or continue to be exempt from participation in, the state's Prescription Drug Purchasing Consortium.

# STUDY MANDATE AND REPORT OVERVIEW

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## The Prescription Drug Purchasing Consortium

In 2005, concerned with the rapidly rising prescription drug costs of the 1990s and early 2000s, the Washington State Legislature authorized the creation of the Prescription Drug Purchasing Consortium (SSB 5471). The Legislature directed the Health Care Authority to establish and administer the Consortium and required state-purchased health care programs to participate in the Consortium, unless exempted. The Consortium was intended to be a vehicle that state programs and other interested parties could use to help contain prescription drug expenditures by combining their purchasing power. It was also intended to provide greater access to prescription drugs at lower costs for uninsured and underinsured individuals.

The legislation authorizing the Consortium also directed the Joint Legislative Audit and Review Committee (JLARC) to conduct a performance audit of the Consortium.

## Statutory Requirements for the Consortium

The 2005 legislation required the Health Care Authority to:

- Adopt policies to establish the Consortium;
- Determine if any state-purchased health care programs should be exempted from the requirements to participate in the Consortium;
- Open the Consortium to voluntary participation by units of local governments, private employers, labor unions, and uninsured and underinsured individuals;
- Make participation in the Consortium available beginning January 1, 2006;
- Establish an Advisory Committee that meets quarterly;
- Explore joint purchasing opportunities with other states;
- Set reasonable fees, if necessary, to cover administrative costs; and
- Base the Consortium's purchasing activities on the evidence-based prescription drug program established under RCW 70.14.050.

## Organization of the Report

This report is organized into three topic areas:

- An assessment of the **compliance with statutory requirements**;
- An examination of whether the Consortium has produced **cost savings**; and
- A look at whether the Consortium has led to **health outcome improvements**.



# COMPLIANCE WITH STATUTORY REQUIREMENTS

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## **Has the Health Care Authority Established the Consortium?**

The Legislature directed the Health Care Authority (HCA) to adopt policies to establish the Consortium, either directly or by contract. HCA met this requirement by contracting with a pharmacy benefits manager (PBM). State-purchased health care programs and other employers interested in participating in the Consortium are able to do so by becoming a party to the PBM contract. Individuals can also obtain discounts on prescription drugs by enrolling in the Washington State Discount Card program, which is part of the Consortium.

While the Health Care Authority has the discretion to contract with a PBM, JLARC examined this option and learned that contracting with a PBM is a common approach used by many employers to administer prescription drug coverage for their employees. PBMs establish pharmacy networks, process claims, negotiate discounts and rebates with drug manufacturers, help manage costs, and provide employers with utilization data. Employers often do not have the knowledge, experience, and staff resources to perform all of these functions. Contracting with a PBM also allows employers to add their purchasing power with that of other employers contracting with the same PBM to potentially obtain even greater discounts and rebates. PBMs currently manage drug benefits for more than half of the U.S. population. Approximately two-thirds of all prescriptions in the U.S. are processed by PBMs.<sup>1</sup>

The complexities involved in prescription drug purchasing are compounded when trying to meet the purchasing needs of multiple state-purchased health care programs, private employers, and individuals. (See diagrams and descriptions of the purchasing processes for the Discount Card and the other eight state programs in Appendix 3.) The PBM contract provides flexibility and can accommodate differing prescription drug purchasing needs including a mail order option and specialty pharmacy services to assist patients with high cost, chronic health conditions requiring complex medication management.

Specific to the Consortium's PBM contract is a requirement that all financial transactions be open and transparent. This means that all drug prices, discounts and rebates, and any agreements between the PBM and prescription drug manufacturers and/or the PBM and pharmacies are visible to the Health Care Authority and to the public. This aspect of the Consortium contract is not typical in the pharmaceutical industry.

Statute requires that uninsured and underinsured individuals be able to participate in the Consortium. The Discount Card provides that opportunity and HCA believes it is achieving higher enrollment than previous prescription drug discount attempts because it is part of the Consortium. The PBM signed the contract when the Discount Card program was the only definite participant in the Consortium and the state-purchased health care programs and private employers were only potential participants. However, JLARC was unable to determine to what extent including the Discount Card in the PBM contract contributes to the higher enrollment.

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<sup>1</sup> "Follow the Pill: Understanding the U.S. Commercial Pharmaceutical Supply Chain," Prepared for the Kaiser Family Foundation by the Health Strategies Consultancy LLC, March 2005.

## Which State-Purchased Health Care Programs Are Designated to Participate in the Consortium?

Statute requires state health care programs (as defined in RCW 41.05.011) that purchase prescription drugs directly or through reimbursement to pharmacies must do so as part of the Consortium, unless expressly exempted. Exhibit 1 shows the eight state programs designated to participate in the Consortium, and, for comparative purposes, provides approximate annual non-managed care expenditures for prescription drugs and number of prescriptions filled.

Exhibit 1 – Designated State Health Programs Purchased Nearly \$683 Million Prescription Drugs

<b>State-Purchased Health Care Program</b>	<b>Approximate Annual Prescription Drug Expenditures</b>	<b>Approximate Annual Number of Prescriptions Filled</b>
Uniform Medical Plan	\$158.3 million state	1,660,000
Department of Labor and Industries	\$27.4 million state	402,000
DSHS/Health and Recovery Services Administration (Medical Assistance)	\$194.7 million federal \$211.4 million state	7,414,000
Department of Health – Immunization Program	\$53.5 million federal \$15.5 million state	2,703,000
Department of Corrections	\$14.0 million state	631,000
Department of Health – HIV Client Services	\$3.4 million federal \$3.1 million state	27,000
Department of Veterans Affairs	\$1.1 million federal \$0.2 million state	96,000
Department of Health – STD Services	\$38,000 federal	9,000
<b>Total</b>	<b>\$682.6 million</b>	<b>12,942,000</b>

Note: Expenditures are for non-managed care drug purchases less any rebates the programs received. Immunizations are measured in doses administered.

Source: JLARC analysis of FY 2007 data supplied by agencies.

## Do All Designated State Programs Participate in the Consortium?

Statute excludes state-purchased managed care (as defined in RCW 48.43.005) from the requirement to participate in the Consortium. Because of this, Medicaid managed care and the majority of Public Employee Benefit Board (PEBB) health care plans are not required to participate in the Consortium. In these instances, insurance carriers are purchasing prescription drugs for state clients and employees as part of the overall health care coverage provided. However, state fee-for-service health care programs that purchase prescription drugs must participate in the Consortium unless they demonstrate to the Health Care Authority (HCA) that greater discounts and aggregate cost savings can be achieved as a result of federal programs or other purchasing arrangements than would be realized through participation in the Consortium.

## Compliance with Statutory Requirements

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Only two out of the eight designated state-purchased health care programs – the Uniform Medical Plan (which enrolls more than half of all PEBB members) and the Department of Labor and Industries – are participating in the Consortium. Exhibit 2 shows the six state-purchased health care programs designated to participate in the Consortium that are not currently doing so, and they have not completed the necessary cost analyses for an HCA decision regarding exemption. Statute does not contain a date by which the cost analyses must be completed. However, five of the six programs had at least half a year to conduct the analysis after the Consortium PBM contract was signed (December 6, 2006) and prior to their prescription drug contract start or annual renewal date. The Department of Health Immunization Program does not contract for the purchase of vaccines.

Exhibit 2 – Six Out of Eight State Programs Are Not Participating and Are Not Exempted

State-Purchased Health Care Program	Currently Participating in Consortium?	Demonstrated Cause for Exemption?
Uniform Medical Plan	Yes	NA
Department of Labor and Industries	Yes	NA
DSHS/HRSA (Medical Assistance)	No	No
Department of Health – Immunization Program	No	No
Department of Corrections	No	No
Department of Health – HIV Client Services	No	No
Department of Veterans Affairs	No	No
Department of Health – STD Services	No	No

Source: JLARC analysis of agency data.

As part of this performance audit, JLARC inquired about why six of the state programs are not currently participating in the Consortium. JLARC learned that all six of the state programs participate in federal programs and/or make use of other joint arrangements for prescription drug purchasing. For example, several federal agencies, including the U.S. Veterans Administration and the U.S. Public Health Services, participate in a program known as the Federal Supply Schedule. The Federal Supply Schedule guarantees that these agencies can purchase drugs from the manufacturers at prices equal to or lower than what is charged to their “most-favored” non-federal purchasers. These lower prices are also available to counter-part government agencies at the state and local levels. There is also the federal 340B Drug Pricing Program which limits the costs of covered outpatient drugs for certain health clinics and disproportionate share hospitals. When the cost analyses are complete, they might show that some or all of these state programs can achieve greater cost savings through their current arrangements than can be achieved through participating in the Consortium. However, absent the required cost analyses, HCA cannot make a determination about whether or not the programs would benefit from participating in the Consortium. The agencies have now initiated the required cost comparisons and HCA anticipates having more information on these programs in the future.

Exhibit 3 shows the six state programs not currently participating in the Consortium; some of the federal programs (and other purchasing arrangements) which provide prescription drug purchasing assistance; and a date HCA estimates for completion of the cost analysis.

Exhibit 3 – Cost Analyses Expected to be Completed Soon

<b>State-Purchased Health Care Program</b>	<b>Federal Programs and/or Other Purchasing Arrangements</b>	<b>HCA Anticipated Completion Date of Cost Analysis</b>
DSHS/HRSA (Medical Assistance)	Federal HHS (Medicaid); Medicare Part D	July 2009
Department of Health – Immunization Program	Centers for Disease Control Vaccines for Children Program; Section 317 Immunization Grant Program	November 2008
Department of Corrections	Minnesota Multistate Contracting Alliance for Pharmacy	November 2008
Department of Health – HIV Client Services	Ryan White Program; Federal 340B Drug Pricing Program; National Alliance of State and Territorial AIDS Directors	November 2008
Department of Veterans Affairs	Federal Veterans Administration; Medicare Part D; Medicaid	November 2008
Department of Health – STD Services	Federal 340B Drug Pricing Program	November 2008

Source: JLARC analysis of agency data.

### **Is the Consortium Available for Voluntary Participation?**

The statute states that the Consortium should be open on a voluntary basis to units of local government, private entities, labor organizations, and individuals who lack or are underinsured for prescription drug coverage. The pharmacy benefits manager (PBM) contract is open to all of these entities. HCA staff have provided information and made presentations about the Consortium to interested parties, and the PBM contractor has added new staff to market the Consortium to other public and private entities. However, to date, individuals enrolling in the Discount Card program are the only voluntary participants in the Consortium.

Since there are no definite answers as to why eligible employer groups are not participating in the Consortium, JLARC asked Consortium Advisory Committee members and others with prescription drug expertise their views on possible factors contributing to the lack of participation. These individuals said group employers might have one or more of the following reasons for not choosing to participate in the Consortium:

- Preference for comprehensive health coverage as opposed to stand alone drug coverage;
- Currently in a multi-year contract for comprehensive health or drug coverage;
- Lack of knowledge about how prescription drug purchasing works and preference for staying with what they have;
- Feel they have already made better drug purchasing arrangements on their own; and
- Unaware that they can join the Consortium.

## Other Statutory Requirements Related to the Consortium

The 2005 legislation contained some additional requirements related to the creation and implementation of the Consortium. Exhibit 4 provides a quick view of compliance with these requirements.

Exhibit 4 –Other Statutory Requirements Largely Met

Statutory Requirement	Compliance	Comment
Make Consortium available for participation by January 1, 2006	No	On December 6, 2006, the Consortium became available for participation when the contract with the PBM was signed. At this time, state programs and other employers could begin the analyses to determine whether or not joining the Consortium might yield cost savings. The Discount Card program became available to individuals in February 2007.
Establish an Advisory Committee	Yes	The legislation is very specific about the membership of the Committee and the process to be used in assembling the Committee. The Health Care Authority assembled the Committee in November 2005 as required. Thus far, the Committee’s focus has been on ways to improve and expand enrollment in the Discount Card program.
Hold quarterly meetings of the Advisory Committee	Partial	The Committee held its first meeting in December 2005 and has met quarterly since – with the exception of three quarters in 2006 when HCA was working on the Consortium’s RFP to secure a pharmacy benefits manager.
Explore joint purchasing with other states	Yes	HCA established the Consortium jointly with the Oregon Prescription Drug Program. HCA staff report having talked with Idaho, Wyoming, and California.
Set reasonable fees	Yes	Enrollment in the Discount Card program is free. Members pay an administrative fee of \$1 per claim. Administrative fees for state programs and other employers are consistent with industry levels.
Base purchasing activities on the evidence-based prescription drug program	Yes	Adherence to the state’s evidenced-based preferred drug list (PDL), when possible, is included in the PBM contract and is a requirement for pharmacies accepting Uniform Medical Plan and Labor and Industries patients. Approximately 60 to 70 percent of the prescription drugs purchased by UMP and L&I are on the PDL.

Source: JLARC analysis of agency data.



# HAS THE CONSORTIUM PRODUCED COST SAVINGS?

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## **Drug Prices Are Only Part of What Drives Drug Expenditures**

The concept behind the Consortium is to control drug costs by combining purchasing power and negotiating more favorable prescription drug prices. However, drug prices are only one part of what drives drug expenditures. The number of prescriptions filled and the types of drug dispensed are important factors as well. In fact, in the early 1990s to mid-2000s, increases in the number of prescriptions filled accounted for about half of the rise in national drug expenditures. Changes in the types of drugs dispensed accounted for about one-quarter of the increased spending. Drug prices, the primary focus of the Consortium, accounted for the final one-quarter of the expenditure increase that occurred in this time period.<sup>2</sup>

## **How Are Drug Prices Set?**

The drug supply system is very complex with many different players involved. This can lead to great variation in prescription drug prices. Some of the variables impacting drug prices include the cost of: ingredients; research and development; distribution; advertising; and desired return on investment. Market factors such as population need, inflation, and competition from similar drugs and/or generic equivalents also influence drug prices.

The role of a pharmacy benefits manager (PBM) is to work with some of the other key players including the drug manufacturers and pharmacies to obtain the best drug prices, discounts, and rebates. It is the drug manufacturers that have the greatest influence over drug prices and so the PBM negotiates with them to secure discounts and rebates for filled prescriptions. The drug manufacturers decide what discounts and rebates will be applied based on market share, sales volume, and prompt payment. There are a few relatively large, multinational companies that make up the bulk of the pharmaceutical manufacturing industry. In 2004, the ten largest drug manufacturers accounted for almost 60 percent of the U.S. brand name prescription drug sales. In 2006, 78 percent of national drug expenditures went to drug manufacturing companies.<sup>3</sup>

Pharmacy benefits managers also work to create pharmacy networks. In creating a pharmacy network, the PBM must find enough pharmacies to ensure adequate geographic access for prescription drug plan members or clients, and the prices that will be paid to the pharmacies for the filled prescriptions must be sufficient for the pharmacies to be willing providers of the drugs. In 2006, 19 percent of national drug expenditures went to retail pharmacies.<sup>4</sup>

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<sup>2</sup> “Prescription Drugs: Getting the Whole Picture,” BlueCross BlueShield of Minnesota, July 6, 2005.

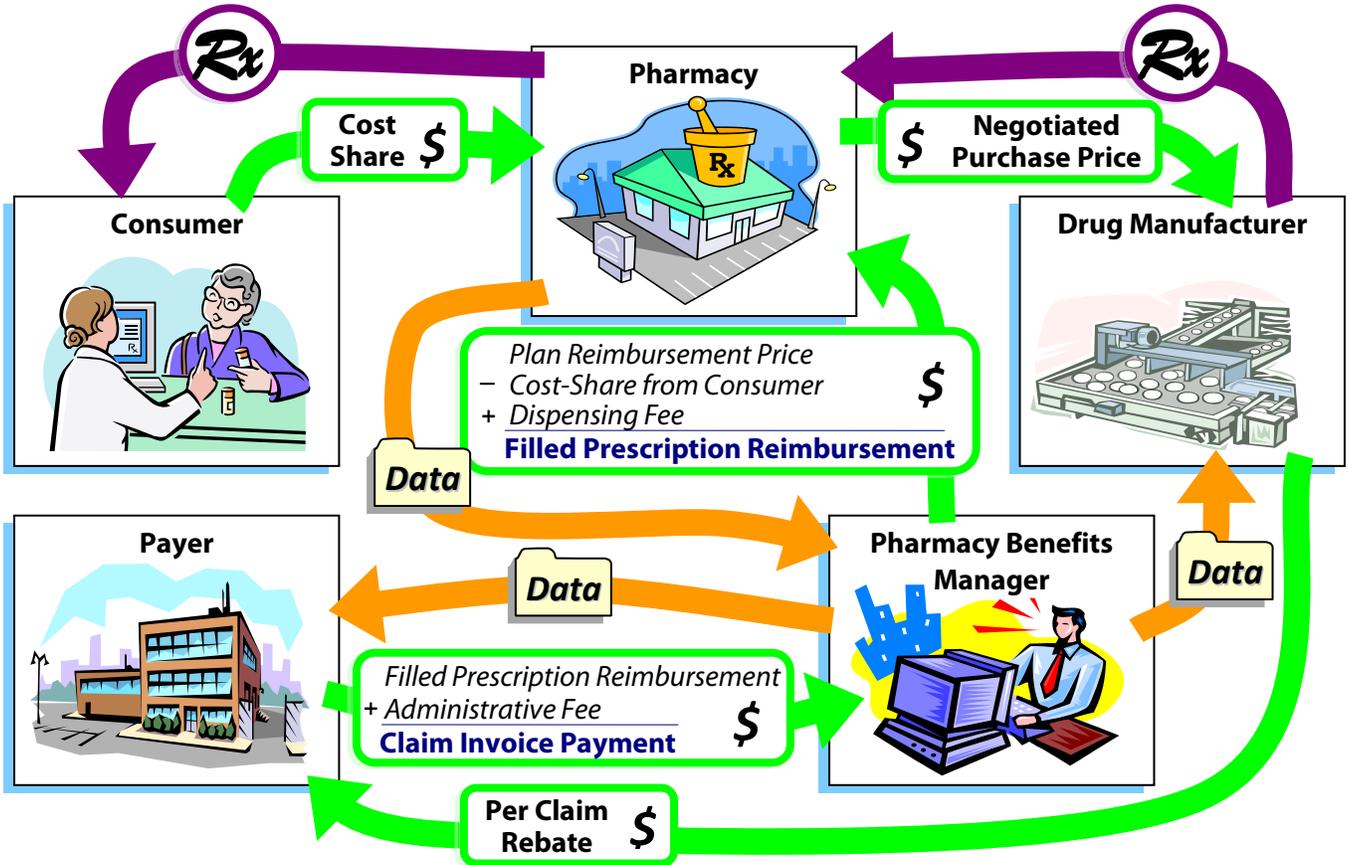
<sup>3</sup> “Prescription Drug Trends,” Kaiser Family Foundation, May 2007.

<sup>4</sup> Ibid.

## How Does Purchasing Prescription Drugs with a PBM Work?

Exhibit 5 is a hypothetical, but representative illustration of some typical relationships and interactions between the consumer, the payer, the pharmacy benefits manager (PBM), the pharmacy, and the drug manufacturer. The arrows in the graphic indicate the flows of drugs, dollars, and data. The drug arrows (purple) show the movement of prescription drugs from the drug manufacturing company to the pharmacy to the consumer. The dollar arrows (green) represent consumer cost-share, purchase payments, reimbursements, dispensing and administrative fees, and rebates from the drug manufacturers. The data arrows (orange) represent claims for filled prescriptions, drug orders, invoices for reimbursement, contracts, other arrangements, and utilization data.

Exhibit 5 – Prescription Drug Purchasing Involves a Complex Set of Interactions



Source: JLARC analysis of prescription drug industry players and interactions.

Each state program is different with different players and different interactions (see Appendix 3 for schematics and more detail about the Discount Card and the eight state-purchased health care programs).

## **How are Cost Savings Determined for State Programs?**

To determine whether cost savings or cost avoidances might be available to the state-purchased health care programs by participating in the Consortium, the current pharmacy benefits manager (PBM) contractor uses a re-pricing algorithm applied to historical prescription drug utilization data. The re-pricing shows what prescription drug expenditures would have been had the state program contracted with the current PBM during the time period being analyzed. While the difference between the actual expenditures and the re-priced expenditures provides an indication of possible cost savings in the future, state programs cannot be guaranteed that cost savings will be achieved because of changes in drug prices, utilization, and types of drugs dispensed.

## **Have There Been Cost Savings for Consortium Participants?**

There are three programs currently participating in the Consortium: the Uniform Medical Plan; the Department of Labor and Industries; and the Discount Card. Results of participating in Consortium vary for each program.

### ***Uniform Medical Plan:***

For the Uniform Medical Plan (UMP), the re-pricing showed what would have been paid for the prescriptions filled in 2006 had the UMP been contracting with the current PBM at the time. The re-pricing projections showed that the UMP would be paying more in administrative and dispensing fees in 2008, but would likely realize greater price discounts and rebates. The net was a projected cost savings for the UMP of somewhere between \$1 million and \$1.8 million in 2008.

The UMP spent approximately \$106.6 million for prescription drugs in the first six months of 2008. Under the previous PBM contract, the same prescription drugs in the same time period would have cost almost \$1.8 million more. Because enrollment can change from year-to-year, another way of viewing the costs is to use a per member per month comparison. The per member per month prescription drug expenditure for the first three months of 2008 was \$53.58. In 2007, the per member per month prescription drug expenditure was \$65.33. This too shows that savings are occurring.

### ***Department of Labor and Industries:***

Since Labor and Industries (L&I) does its own claims processing, using a PBM provides L&I access to rebates from drug manufacturers that the agency might not otherwise be able to receive. The re-pricing algorithm showed what the rebates for purchased prescriptions would have been if L&I had contracted with the current PBM in 2006. The contract with the current PBM specifies that the PBM will keep 50 percent of the rebates they can negotiate from drug manufacturers. The current PBM projected that Labor and Industries would receive nearly \$26,000 in rebates for prescription drugs purchased in each quarter of 2008. For prescription drugs purchased in the first quarter of 2008, the PBM estimates that Labor and Industries will be receiving a little more than \$19,000 in rebates.

***Discount Card:***

The Health Care Authority (HCA) regularly reports data about the Discount Card program including the cost savings on prescription drugs purchased by individuals using the Discount Card. As of August 24, 2008, HCA reports that 89,259 individuals, roughly 1.3 percent of the total state population, now has a Discount Card, and more than 181,000 prescriptions have been filled since the Discount Card became available in February 2007. HCA claims that Discount Card members have spent almost \$6 million on prescriptions since that time. While we cannot determine what these individuals would have spent for prescription drugs without the Discount Card, HCA calculates that they would have paid more than \$4.3 million additional had they paid the full price charged by the pharmacies at which they had their prescriptions filled – a 43 percent savings over the non-discount prices. The average saving per prescription for this time period is \$23.17.

# HAVE HEALTH OUTCOMES IMPROVED AS A RESULT OF THE CONSORTIUM?

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Various studies have found that because of prescription costs, uninsured adults are significantly more likely to take partial doses, not fill prescriptions, or skip medical treatment than insured adults. The research also shows that these actions can have adverse effects on individuals and that appropriate access to prescription drugs and following a prescribed regimen will improve the health outcomes of individuals and decrease the costs of other health care such as physician visits and hospital admissions.

Identifying the impact on individuals' health status resulting from prescription drug purchasing arrangements is extremely problematic. Access to and adequacy of other health care services and social supports are important factors. What contributes to a change in an individual's health status is seldom attributable to one factor.

There is no way to know if there have been any changes in health outcomes for Uniform Medical Plan enrollees and Labor and Industries claimants because implementing of the Consortium:

- Did not result in any significant changes in the access to or costs of prescription drugs.
- Did not change the way in which these two programs purchase prescription drugs. It only resulted in a change from a previous pharmacy benefits manager (PBM) contractor to the current PBM contractor.

Also, a determination about any health status changes for Discount Card members cannot be made. The contract the Health Care Authority (HCA) has with the current PBM requires that a customer satisfaction survey be conducted. For the purposes of this performance audit, HCA agreed to include health status questions in this survey. There were approximately 80,000 individuals enrolled in the Discount Card program in May 2008 when the PBM contractor conducted the survey. The PBM contractor mailed surveys to approximately 4,000 individuals who had filled at least two prescriptions in the prior year using the Discount Card. As of August 2008, less than 150 Discount Card members had responded. The response rate is not sufficient to draw any conclusions about possible changes in members' self-reported health status.



# FINDINGS AND RECOMMENDATIONS

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## **Finding 1**

The Departments of Corrections; Veterans Affairs; Health; and Social and Health Services/ Health and Recovery Services Administration are not participating in the Consortium as required by statute, nor have they completed the required cost analyses to demonstrate they can achieve greater discounts and aggregate savings from federal programs or other purchasing arrangements than can be realized through participation in the state's Prescription Drug Purchasing Consortium.

## **Recommendation 1**

**The Departments of Corrections; Veterans Affairs; Health; and Social and Health Services/ Health and Recovery Services Administration should complete the required analyses that demonstrate whether or not the six state fee-for-service health care programs they administer can achieve greater discounts and aggregate savings as a result of federal programs or other purchasing arrangements than would be realized through participation in the state's Prescription Drug Purchasing Consortium.**

<b>Legislation Required:</b>	None
<b>Fiscal Impact:</b>	JLARC assumes that this can be completed within existing resources.
<b>Completion Dates:</b>	November 2008 for all agencies except DSHS. July 2009 for DSHS/HRSA.

After JLARC began making inquiries about the required analyses as part of this performance audit, the state programs and the Health Care Authority initiated the analyses. Because DSHS/Health and Recovery Services Administration is in the process of implementing a new vendor contract for its prescription drug management information system, some additional time might be needed to collect necessary data using the new system.

## **Finding 2**

Because the required cost analyses have not been completed, the Health Care Authority has not made the determinations about whether the six state programs should participate in or should be exempted from participation in the Consortium.

**Recommendation 2**

**Based on the analyses conducted by the state agencies, the Administrator of the Health Care Authority should make a determination whether each of these state programs is required to participate in, or is exempt from participation in, the state's Prescription Drug Purchasing Consortium, and report the determinations to JLARC.**

<b>Legislation Required:</b>	None
<b>Fiscal Impact:</b>	JLARC assumes that this can be completed within existing resources.
<b>Report Dates:</b>	December 2008 for all agencies except DSHS. August 2009 for DSHS/HRSA.

**Finding 3**

The prescription drug supply system and drug purchasing arrangements are not static. Factors impacting drug costs are likely to change after the initial cost analyses are completed and determinations about participation are made.

**Recommendation 3**

**The Health Care Authority should periodically conduct updated cost analyses to determine whether each of the state programs should continue to participate in, or continue to be exempt from participation in, the state's Prescription Drug Purchasing Consortium.**

<b>Legislation Required:</b>	None
<b>Fiscal Impact:</b>	JLARC assumes that this can be completed within existing resources.
<b>Report Date:</b>	December 2008 for submitting a plan to the Legislature regarding how and when periodic updates will occur.

For state health care programs involving federal drug purchasing arrangements, the plan should include a review when the associated federal program undergoes a significant purchasing arrangement change. For state health care programs that do not involve federal drug purchasing arrangements, the plan should include a review:

- After a specified maximum number of years have passed since the previous review;
- When a state health care program anticipates a potential change to their purchasing arrangement (e.g., conducting a prescription drug purchasing vendor RFP/RFQ); or
- When the Health Care Authority makes changes to how the Consortium is administered, including any change in the pharmacy benefits contractor, that might potentially result in significant changes to net prescription drug prices.

# APPENDIX 1 – SCOPE AND OBJECTIVES

## PERFORMANCE AUDIT OF THE PRESCRIPTION DRUG PURCHASING CONSORTIUM

SCOPE AND OBJECTIVES  
MARCH 2008



STATE OF WASHINGTON  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMITTEE

**STUDY TEAM**  
John Bowden

**PROJECT SUPERVISOR**  
Keenan Konopaski

**LEGISLATIVE AUDITOR**  
Ruta Fanning

Joint Legislative Audit &  
Review Committee  
1300 Quince Street SE  
Olympia WA 98504-0910  
(360) 786-5171  
(360) 786-5180 Fax

**Website:**  
[www.jlarc.leg.wa.gov](http://www.jlarc.leg.wa.gov)  
e-mail: [neff.barbara@leg.wa.gov](mailto:neff.barbara@leg.wa.gov)

## Why a JLARC Performance Audit of the Prescription Drug Purchasing Consortium?

In 2005, the Legislature passed Substitute Senate Bill 5471 (RCW 70.14.060) creating the Prescription Drug Purchasing Consortium and directing the Joint Legislative Audit and Review Committee (JLARC) to conduct a performance audit of the Consortium by December 2008.

## Background

### Creating the Consortium

The Legislature, concerned with the rising costs of prescription drugs, provided a vehicle for state health care programs and other entities to join together and combine their purchasing power in order to negotiate discounts on prescription drug purchases.

The Legislature charged the Health Care Authority with establishing the Prescription Drug Purchasing Consortium and exploring joint purchasing with other states. The legislation also created an Advisory Committee comprised of representatives for business, labor, senior citizens and other consumers, pharmacies, health carriers, and medical providers to advise and assist the Health Care Authority in the Consortium's activities.

### Consortium Membership

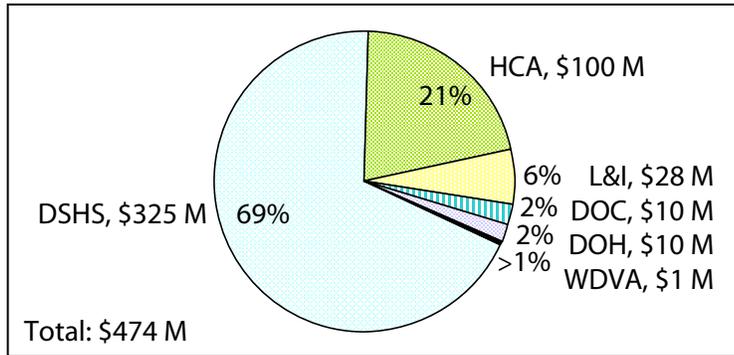
The 2005 legislation requires state health care programs that purchase prescription drugs directly or through reimbursement to do so through the Consortium. Statute designates the following six state agencies to be part of the Consortium:

- Washington State Health Care Authority (HCA);
- Department of Health (DOH);
- Department of Social and Health Services (DSHS);
- Department of Labor and Industries (L&I);
- Department of Corrections (DOC); and
- Washington Department of Veterans Affairs (WDVA).

If a state agency can demonstrate it can achieve greater discounts and aggregate cost savings through other means, it does not have to purchase through the Consortium.

The most recent cost data on state agency drug purchases was compiled by the Health Care Authority for fiscal year 2004. This data showed combined prescription drug expenditures of \$474 million for the six state agencies designated for the Consortium.

2004 State Expenditures on Prescription Drugs (in millions)



Source: HCA, May 2006.

In addition to the state agencies, SSB 5471 allows units of local government, private entities, labor organizations, and individuals who lack or are underinsured for prescription drug coverage to participate in the Consortium on a voluntary basis.

### Study Scope

The performance audit will review the operations and outcomes associated with the implementation of the Prescription Drug Purchasing Consortium.

### Study Objectives

The audit will seek to answer the following questions:

1. What processes and mechanisms have been put into place in order to operate the consortium? What are the roles of consortium members, contractors, prescription drug recipients, and other parties involved with the consortium's operations?
2. What entities designated to participate in the Consortium are doing so? What factors are influencing the decision to participate?
3. What are the cost savings or cost avoidances, if any, to members of the Consortium as a result of participating in the Consortium?
4. To the extent possible, what changes in the health outcomes of participants can be attributable to the purchase of prescription drugs as part of the Consortium?

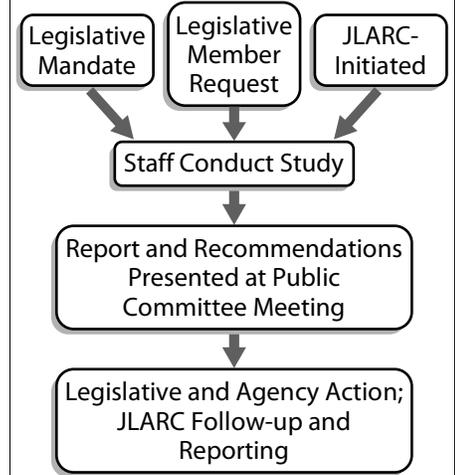
### Timeframe for the Study

Staff will present the preliminary report in October 2008 and the proposed final report in November 2008.

### JLARC Staff Contact for the Study

John Bowden (360) 786-5298 bowden.john@leg.wa.gov

### JLARC Study Process



### Criteria for Establishing JLARC Work Program Priorities

- Is study consistent with JLARC mission? Is it mandated?
- Is this an area of significant fiscal or program impact, a major policy issue facing the state, or otherwise of compelling public interest?
- Will there likely be substantive findings and recommendations?
- Is this the best use of JLARC resources? For example:
  - Is JLARC the most appropriate agency to perform the work?
  - Would the study be nonduplicating?
  - Would this study be cost-effective compared to other projects (e.g., larger, more substantive studies take longer and cost more, but might also yield more useful results)?
- Is funding available to carry out the project?

## APPENDIX 2 – AGENCY RESPONSES

---

- Health Care Authority
- Department of Social and Health Services
- Department of Health
- Department of Corrections
- Department of Labor and Industries
- Department of Veterans Affairs
- Office of Financial Management





**Washington State  
Health Care Authority**

P.O. Box 42700 • Olympia, Washington 98504-2700  
360-923-2828 • FAX 360-923-2606 • TTY 360-923-2701 • [www.hca.wa.gov](http://www.hca.wa.gov)

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September 26, 2008

Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee  
PO Box 40910  
Olympia, WA 98504-0910

Dear Ms. Fanning:

I am pleased to provide the Health Care Authority's response to the "Preliminary Report on the Performance Audit of the Prescription Drug Purchasing Consortium." The Joint Legislative Audit and Review Committee audit and recommendations will provide good guidance for our continuing implementation of the Prescription Drug Purchasing Consortium.

The Health Care Authority concurs with all recommendations:

RECOMMENDATION	AGENCY POSITION	COMMENTS
Rec. 1	Concur	
Rec. 2	Concur	
Rec. 3	Concur	

I want to express our appreciation for a positive audit experience. The audit staff we worked with made thoughtful observations about our efforts to move forward with this program. We especially appreciate their efforts to understand and communicate the complexity of prescription drug purchasing in our state.

Sincerely,

Steve Hill, Administrator

Cc: Christina Hulet, Office of the Governor  
John Williams, Deputy Administrator, HCA  
Duane Thurman, Director, Prescription Drug Programs, HCA  
Ray Hanley, Senior Prescription Drug Program Manager, HCA





STATE OF WASHINGTON  
DEPARTMENT OF SOCIAL AND HEALTH SERVICES  
P.O. Box 45010, Olympia, Washington 98504-5010

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October 1, 2008

Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee  
P.O. Box 40910  
Olympia, WA 98504-0910

Dear Ms. Fanning:

The Department of Social and Health Services has reviewed and agrees with the Health Care Authority's response to the "Preliminary Report of the Performance Audit of the Prescription Drug Purchasing Consortium." We concur with all three recommendations.

RECOMMENDATION	AGENCY POSITION	COMMENTS
Rec. 1	Concur	
Rec. 2	Concur	
Rec. 3	Concur	

I would like to thank the audit staff and appreciate the time spent with Health and Recovery Services Administration (HRSA) staff in order to understand the Medicaid drug program.

Thank you for the opportunity to review and comment on the audit. Please contact MaryAnne Lindeblad at 360-725-1786 or by email at [lindem@dshs.wa.gov](mailto:lindem@dshs.wa.gov) if you have any questions.

Sincerely,

Robin Arnold-Williams  
Secretary

cc: Duane Thurman, Director, Prescription Drug Programs, HCA  
Doug Porter, Assistant Secretary, HRSA





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STATE OF WASHINGTON  
DEPARTMENT OF HEALTH

PO Box 47890 • Olympia, Washington 98504-7890  
Tel: (360) 236-4501 • FAX: (360) 586-7424 • TDD Relay Service: 1-800-833-6388

September 30, 2008

Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee  
Post Office Box 40910  
Olympia, Washington 98504

Dear Ms. <sup>Ruta</sup>Fanning:

I am pleased to provide the Department of Health's response to the preliminary report of the Performance Audit of the Prescription Drug Purchasing Consortium. We were not the agency whose program was being audited, but three of our programs that purchase drugs provided information for the audit.

The Department of Health concurs with all recommendations:

RECOMMENDATION	AGENCY POSITION	COMMENTS
Rec. 1	Concur	
Rec. 2	Concur	
Rec. 3	Concur	

Thank you for the opportunity to review the preliminary audit report and recommendations.

Sincerely,

Mary C. Selecky  
Secretary

- cc: Victor Moore, Office of Financial Management
- Brian Enslow, Office of Financial Management
- Christina Hulet, Office of the Governor
- Steve Hill, Health Care Authority
- Duane Thurman, Health Care Authority
- Mary Wendt, Department of Health







STATE OF WASHINGTON  
**DEPARTMENT OF CORRECTIONS**  
**OFFICE OF THE SECRETARY**

P. O. Box 41101 • Olympia, Washington 98504-1101 • Tel (360) 725-8200  
FAX (360) 664-4056

October 7, 2008

Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee  
Post Office Box 40910  
Olympia, Washington 98504-0910

Dear Ms. Fanning:

I have received and reviewed the *Prescription Drug Purchasing Consortium Preliminary Report*. I am pleased to provide the Department of Corrections' (DOC) response to the *Preliminary Report on the Prescription Drug Purchasing Consortium*. In compliance with your request dated September 16, 2008, DOC provided responses to the three recommendations directly affecting the Department.

In addition, I thought it would be helpful to describe our present situation with regard to drug purchasing. Currently, DOC is mandated by General Administration to establish a contract with the Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP). MMCAP was created in 1985. It is a voluntary group drug purchasing organization operated by the state of Minnesota. It is free service to government and government-authorized healthcare pharmacy organizations. MMCAP is currently made up of 45 states and cities with thousands of participating facilities. In aggregate, these member organizations purchase over \$1 billion worth of pharmaceuticals per year and have national account status with all of the major brand name and generic pharmaceutical manufacturers.

**Recommendation 1**

The Departments of Corrections, Veterans Affairs, Health, and Social and Health Services/ Health Rehabilitation Services administration should complete the required analyses that demonstrate whether or not the six state fee-for-service health care programs they administer can achieve greater discounts and aggregate savings as a result of federal programs or other purchasing arrangements than would be realized through participation in the state's Prescription Drug Purchasing Consortium.

**DOC Response**

The Department of Corrections partially concurs with this recommendation. Based on instructions we received from Health Care Authority (HCA), this analysis will be performed by HCA, not DOC. DOC will cooperate fully with HCA in this endeavor by providing whatever data we have that is requested and by assisting in the analysis.

*"Working Together for SAFE Communities"*

Ruta Fanning  
October 7, 2008  
Page 2

**Recommendation 2**

Based on the analyses conducted by the state agencies, the Administrator of the Health Care Authority should make a determination whether each of these state programs is required to participate in, or is exempt from participation in, the state's Prescription Drug Purchasing Consortium, and report the determinations to JLARC.

**DOC Response**

Department of Corrections partially concurs with Recommendation 2. The only factor which prevents us from concurring fully is that the recommendation does not include additional clarification contained in the enabling legislation. According to RCW 70.14.060 (8), DOC may be exempt if the aggregate costs of participation exceed our current costs. In determining costs, the analysis must take into consideration the special conditions (and cost implications of those conditions) in a correctional setting.

**Recommendation 3**

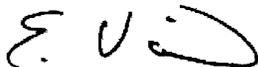
The Health Care Authority should periodically conduct updated cost analyses to determine whether each of the state programs should continue to participate in, or continue to be exempt from participation in, the state's Prescription Drug Purchasing Consortium.

**DOC Response**

The Department partially concurs with Recommendation 3. We are very supportive of the recommendation provided that we are able to participate in the analysis or review the data and assumptions therein contained, and that future analyses continue to consider the corrections-specific factors described above in our response to Recommendation 2.

Please contact me if you have any questions or concerns.

Sincerely,



Eldon Vail  
Secretary

EV:arg

cc: Cheryl Strange, Deputy Secretary for Correctional Operations  
Scott Blonien, Assistant Secretary for Government, Community Relations, and  
Regulatory Compliance  
Denise Doty, Assistant Secretary for Administrative Services  
Mark Stern, Assistant Secretary for Health Services  
Clela Steelhammer, Legislative Liaison  
Kenneth Taylor, Director, Operations Health Services  
Andre Rossi, Director, Pharmacy  
Deborah Johnson, Health Services Administrative Assistant



STATE OF WASHINGTON  
DEPARTMENT OF LABOR AND INDUSTRIES  
PO Box 44000 • Olympia, Washington 98504-4000

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October 2, 2008

Ruta Fanning, Legislative Auditor  
Joint Legislative Audit and Review Committee (JLARC)  
PO Box 40910  
Olympia, WA 98504-0910

Dear Ms. Fanning:

Thank you for the opportunity to review the preliminary report by the Joint Legislative Audit Review Committee on the Prescription Drug Purchasing Consortium Performance. I understand that my staff provided your office with some minor changes that will be addressed. As you know, the Department of Labor & Industries (L&I) is currently participating in the Consortium and therefore the recommendations do not have a direct impact on L&I. That being said, we appreciate the opportunity to provide comments and have no objections to the recommendations.

I have assigned Jaymie Mai, Pharmacy Manager, to continue providing you with any support and assistance you need from L&I on this report. Please let me know if you have questions or require additional information.

Sincerely,

  
Judy Schurke  
Director

cc: Christina Hulet, Office of the Governor  
Robert Malooly, Assistant Director for Insurance Services  
Gary Franklin, Medical Director  
Josh Swanson, Legislative Liaison  
Jaymie Mai, Pharmacy Manager







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STATE OF WASHINGTON  
 DEPARTMENT OF VETERANS AFFAIRS

1102 Quince Street • Box 41150 • Olympia, Washington 98504-1150 • (360) 753-5586

September 30, 2008

Ruta Fanning, Legislative Auditor  
 Joint Legislative Audit and Review Committee  
 PO Box 40910  
 Olympia, WA 98504-0910

Dear Ms. Fanning: *Ruta*

Thank you for the opportunity to provide Veterans Affairs' response to the "Preliminary Report on the Performance Audit of the Prescription Drug Purchasing Consortium."

I am confident that our relationship with the US Department of Veterans Affairs assures we are currently receiving the best available pricing for our pharmaceutical purchases.

RECOMMENDATION	AGENCY POSITION	COMMENTS
Recommendation 1	Concur	DVA continues to work with HCA to complete a comparison of the FSS pricing we receive from the federal VA's prime vendor to that offered through the current PBM
Recommendation 2	Concur	
Recommendation 3	Concur	

I would also like to express my appreciation to John Bowden for his professional approach to this audit. He demonstrated an excellent grasp of the complexities of our processes and was a pleasure to work with.

Sincerely,

John E. Lee  
 Director

cc: Gary Condra





STATE OF WASHINGTON  
**OFFICE OF FINANCIAL MANAGEMENT**

Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0555

October 1, 2008

**TO:** Ruta Fanning, Legislative Auditor  
 Joint Legislative Audit and Review Committee

**FROM:** Victor A. Moore, Director *V.A.M.*  
 Office of Financial Management

**SUBJECT: PERFORMANCE AUDIT OF THE PRESCRIPTION DRUG PURCHASING CONSORTIUM – PRELIMINARY REPORT**

Thank you for giving the Office of Financial Management the opportunity to review and provide comments on JLARC’s preliminary report on the Performance Audit of the Prescription Drug Purchasing Consortium. Our comments are as follows:

Recommendation	OFM Position	Comments
1. The Departments of Corrections; Veterans Affairs; Health; and Social and Health Services/Health Rehabilitation Services Administration should complete the required analyses that demonstrate whether or not the six state fee-for-service health care programs they administer can achieve greater discounts and aggregate savings as a result of federal programs or other purchasing arrangements than would be realized through participation in the state’s Prescription Drug Purchasing Consortium.	Concur	
2. Based on the analyses conducted by the state agencies, the Administrator of the Health Care Authority should make a determination whether each of these state programs is required to participate in, or is exempt from participation in, the state’s	Concur	



Ruta Fanning  
October 1, 2008  
Page 2 of 2

Prescription Drug Purchasing Consortium, and report the determinations to JLARC.		
3. The Health Care Authority should periodically conduct updated cost analyses to determine whether each of the state programs should continue to participate in, or continue to be exempt from participation in, the state's Prescription Drug Purchasing Consortium.	Concur	

We look forward to your final report. If you have any questions, please contact Nick Lutes at (360) 902-0570.

cc: Marty Brown, Legislative Director, Office of the Governor  
Nick Lutes, Budget Assistant, Office of Financial Management

# APPENDIX 3 – STATE PROGRAM PRESCRIPTION DRUG PURCHASING SCHEMATICS

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Appendix 3 contains schematics illustrating the prescription drug purchasing processes for nine state programs including the:

- Uniform Medical Plan;
- Department of Labor and Industries;
- Washington State Prescription Drug Discount Card;
- Department of Social and Health Services/Health Recovery Services Administration (Medical Assistance);
- Department of Health – Immunization Program;
- Department of Corrections;
- Department of Health – HIV Client Services;
- Department of Veterans Affairs; and
- Department of Health – STD Services

The relationships and interactions involved in each program’s purchasing or reimbursement of prescription drugs can be complex. Different key players can be involved for different programs and each program employs different terminology for the various key players. For example, the Consumer might be an enrollee, a claimant, a member, or a client, and the Pharmacy can be a local retail pharmacy, a mail-order pharmacy, a specialty pharmacy, an in-house pharmacy, or a pharmacy within a local health clinic.

The schematics show many of these differences, but in the attempt to show the complex transactions in understandable formats, the relationships and interactions that occur have been simplified. For a definitive description of each program’s purchasing process, JLARC recommends contacting the state program directly.

While there are differences between the programs, each schematic is consistent in how the flow of prescription drugs, money, and information are depicted:

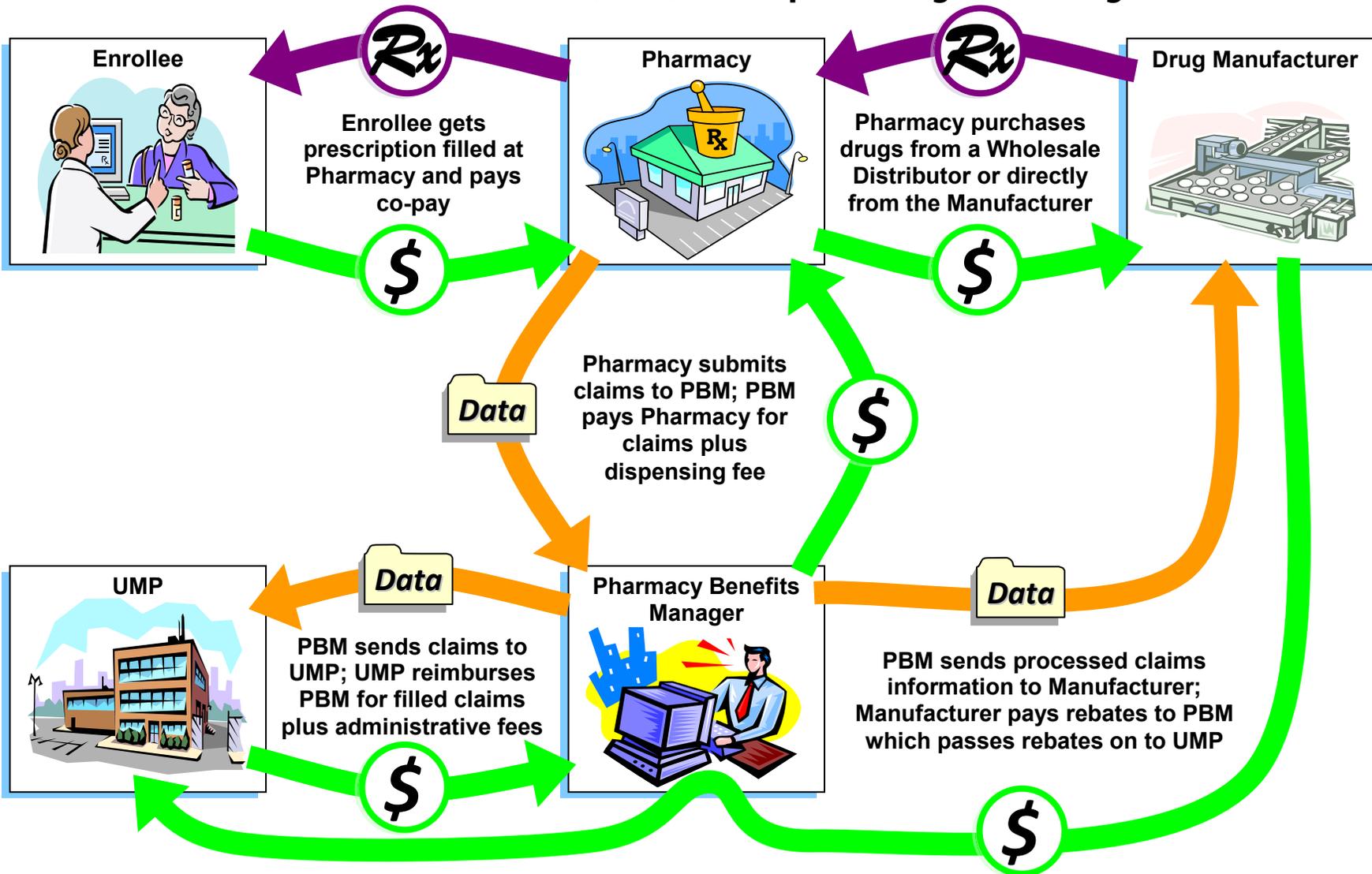
The **purple** drug arrows show the movement of prescription drugs from the drug manufacturing company to the pharmacy to the consumer – often going through a wholesale distributor or other contractor.

The **green** dollar arrows represent any money transaction including consumer expenditure, cost sharing and co-pays, or fees paid; purchase payments by pharmacies, clinics, and wholesale distributors; reimbursements by both state and federal agencies; dispensing and administrative fees; and rebates from the drug manufacturers.

The **orange** data arrows represent exchanges of information including claims for filled prescriptions, drug orders, invoices for reimbursement, contracts, other purchase arrangements, and utilization data.

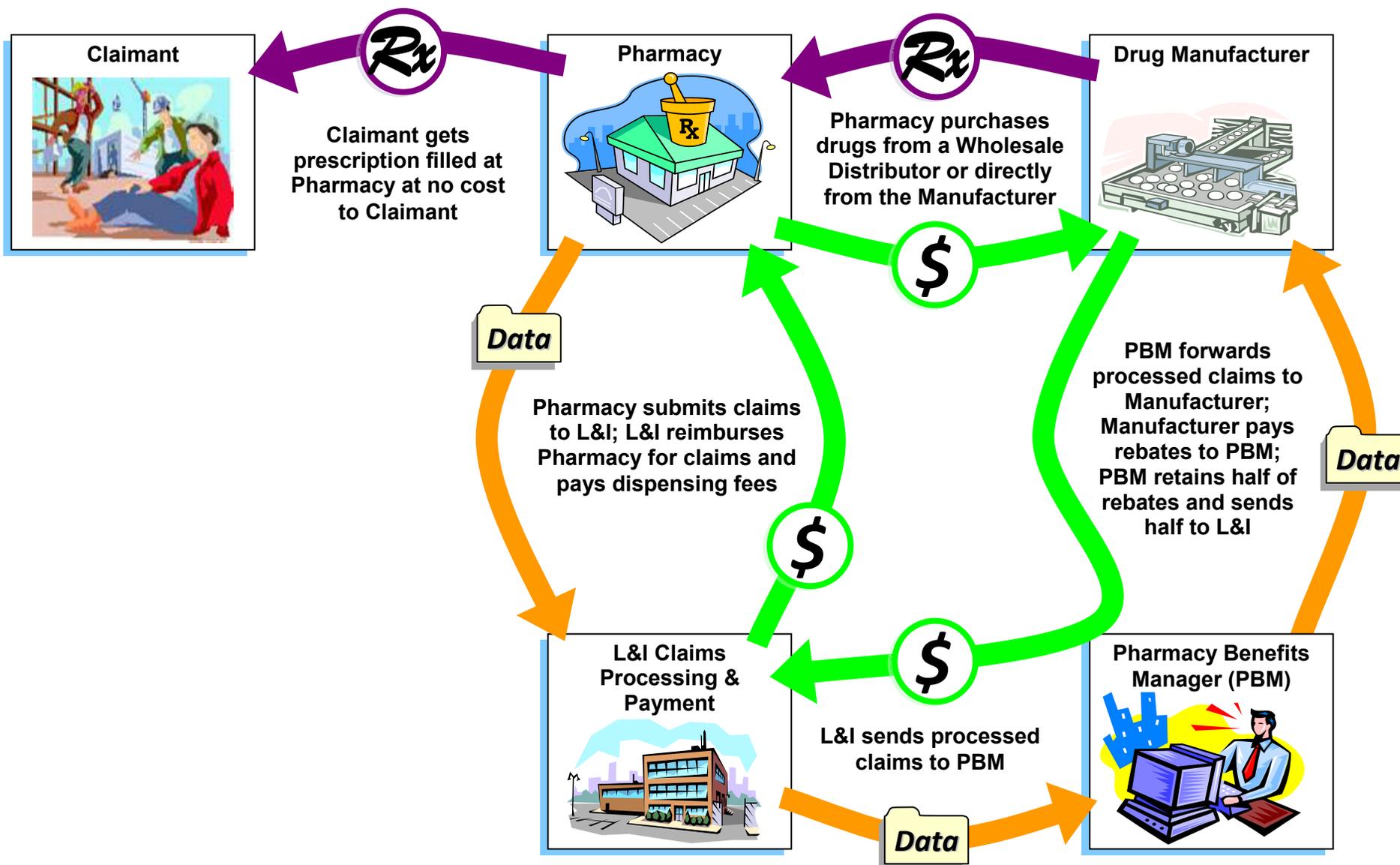


### Exhibit 6 – Uniform Medical Plan (UMP) Prescription Drug Purchasing Schematic



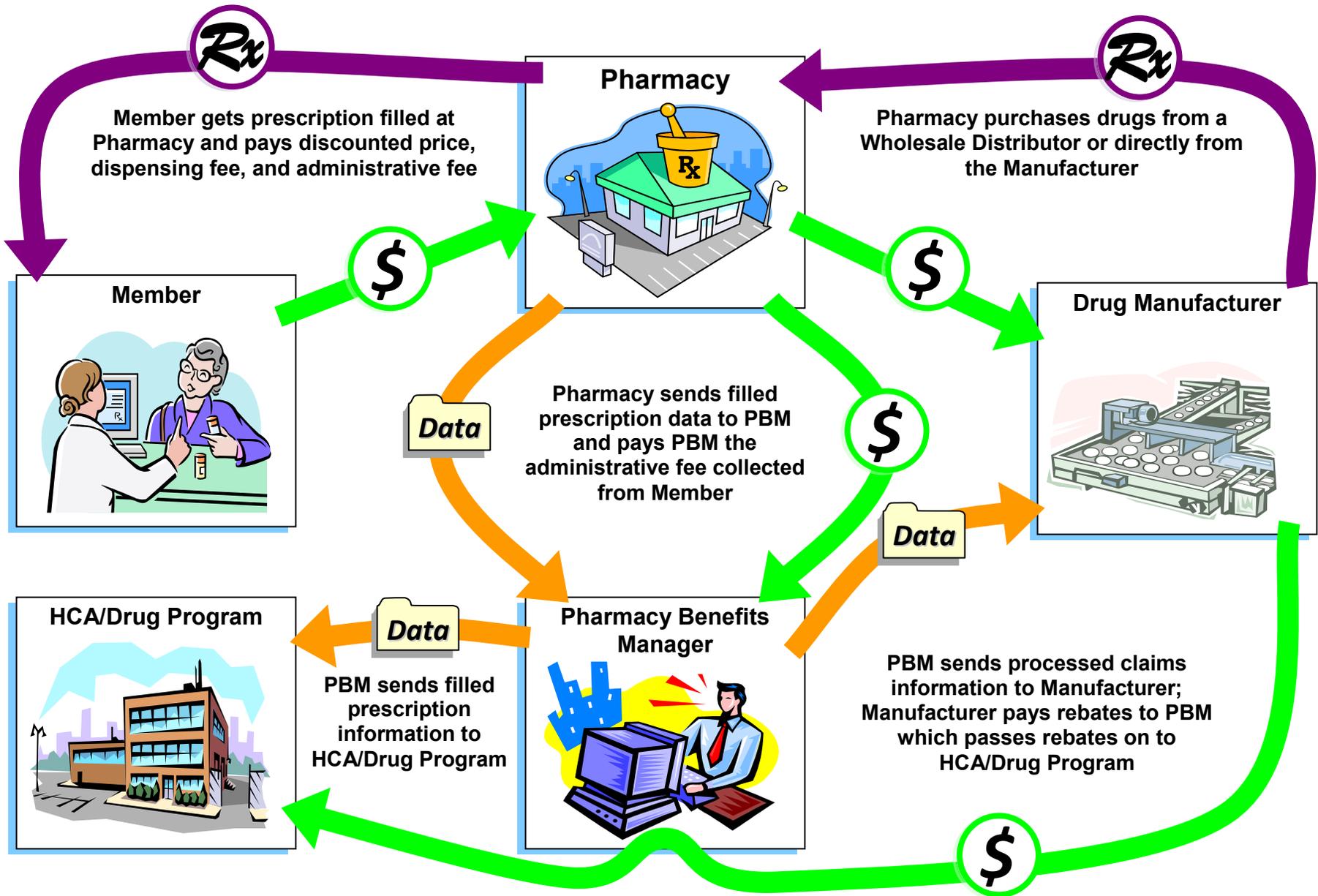
Source: JLARC analysis of agency data.

### Exhibit 7 – Labor and Industries (L&I) Prescription Drug Purchasing Schematic



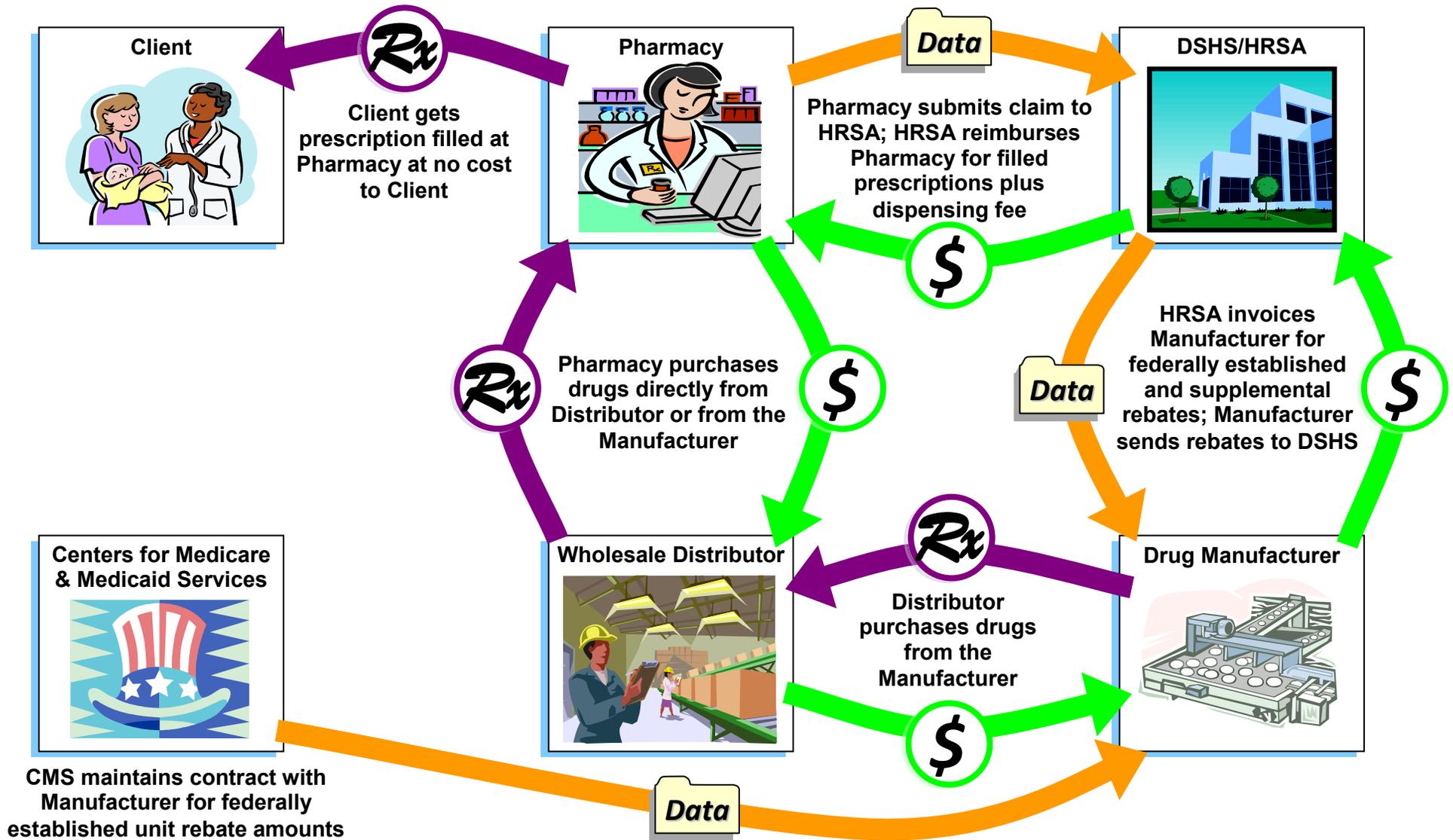
Source: JLARC analysis of agency data.

### Exhibit 8 – Discount Card Prescription Drug Purchasing Schematic



Source: JLARC analysis of agency data.

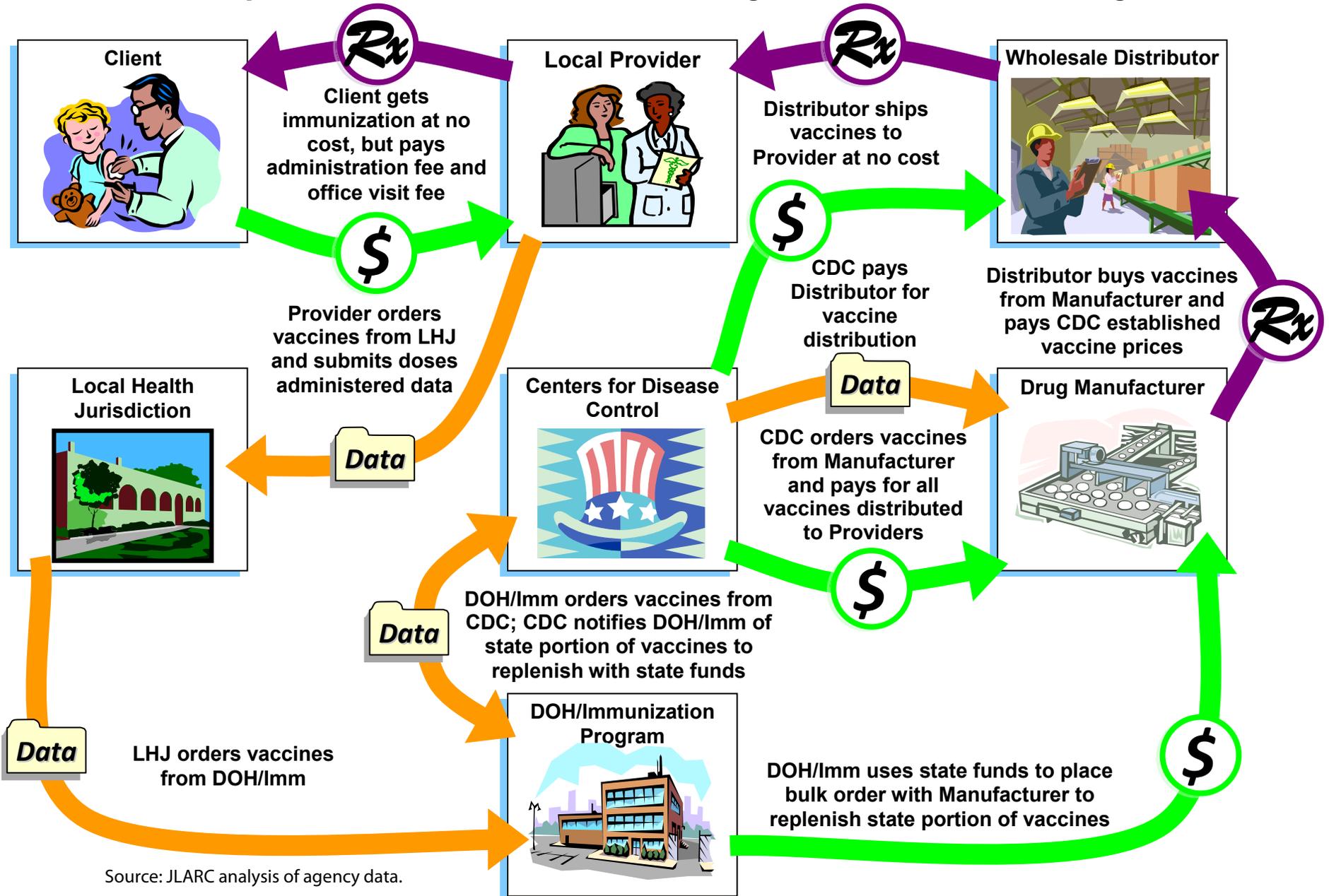
### Exhibit 9 – DSHS/Health and Recovery Services Administration (Medical Assistance)



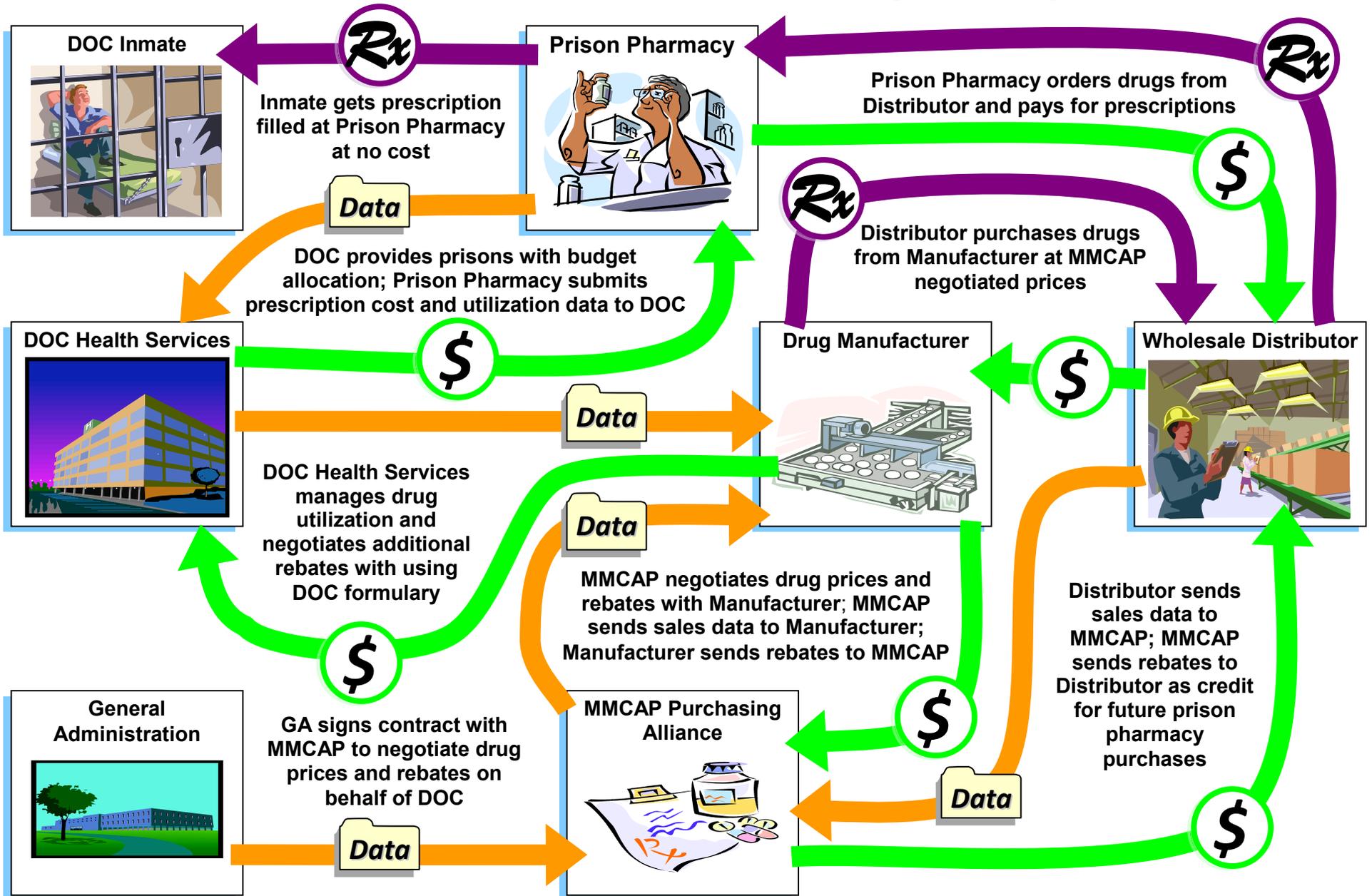
This schematic represents the pharmacy (point of sale) prescription drug reimbursement process only. HRSA reimburses hospitals, health clinics, and provider offices for prescription drugs using different processes.

Source: JLARC analysis of agency data.

### Exhibit 10 – Department of Health Immunization Program (DOH/Imm) Purchasing Schematic

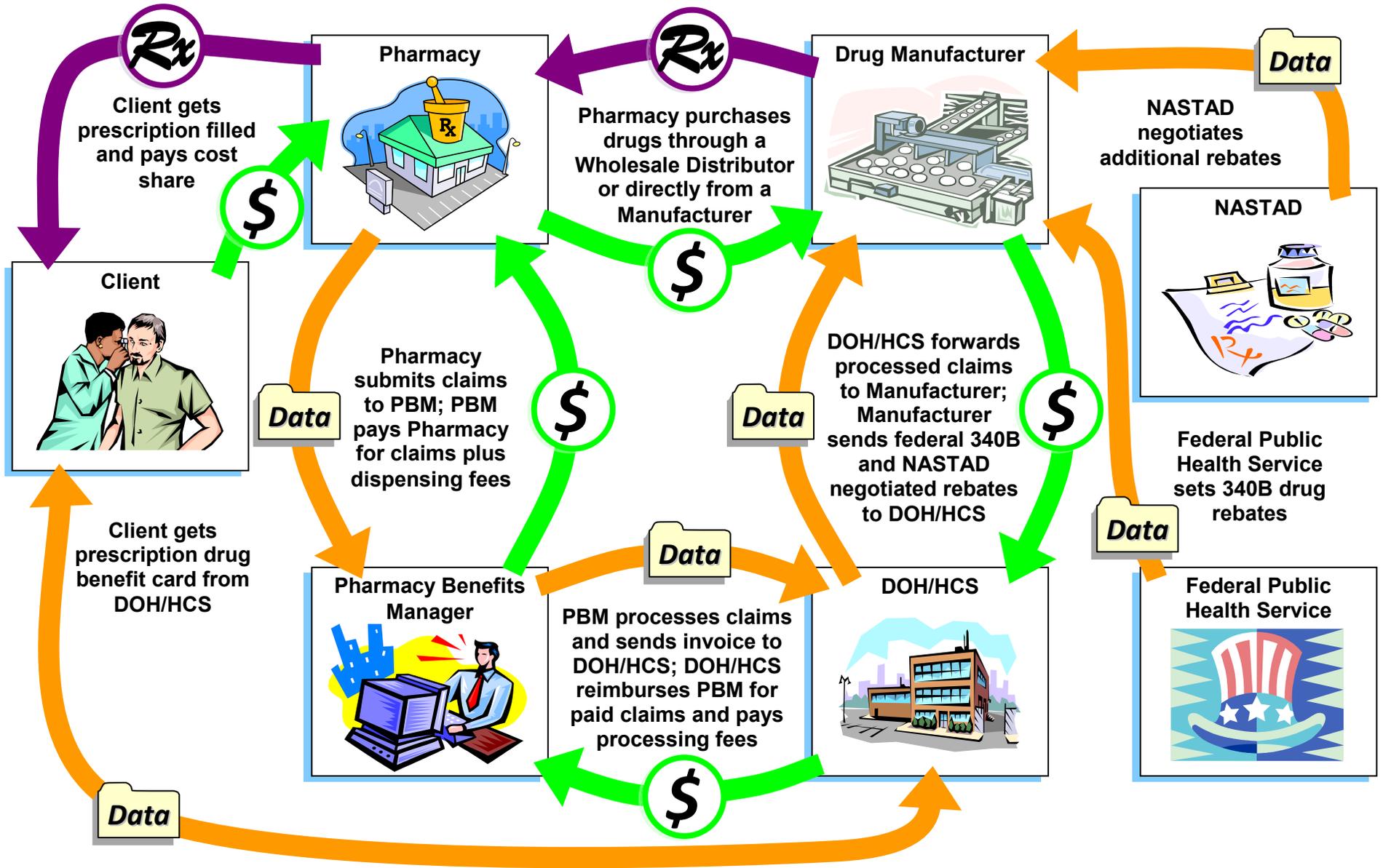


### Exhibit 11 – Department of Corrections Prescription Drug Purchasing Schematic



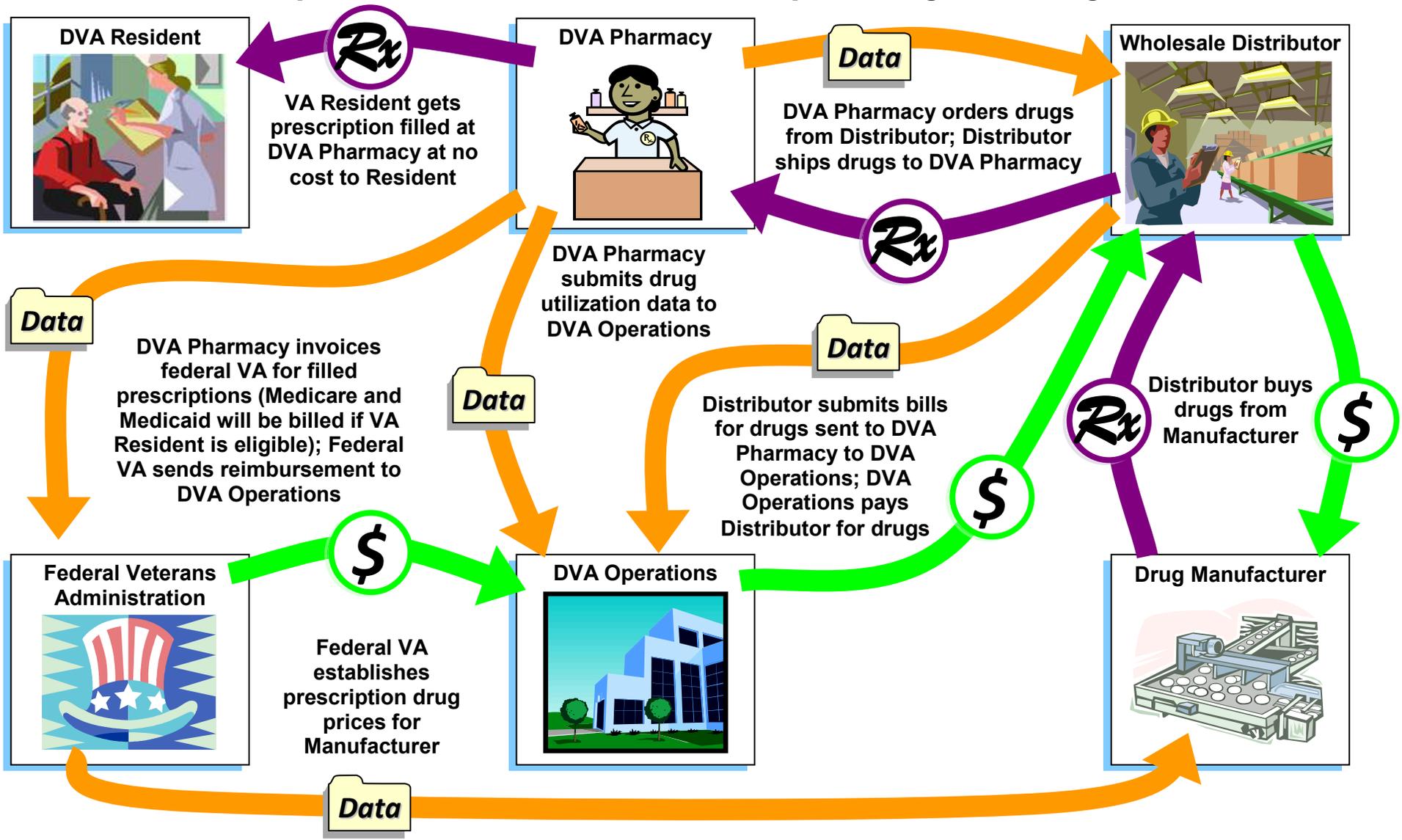
Source: JLARC analysis of agency data.  
 MMCAP: Minnesota Multistate Contracting Alliance for Pharmacy

**Exhibit 12 – Department of Health HIV Client Services (DOH/HCS) Prescription Drug Purchasing Schematic**



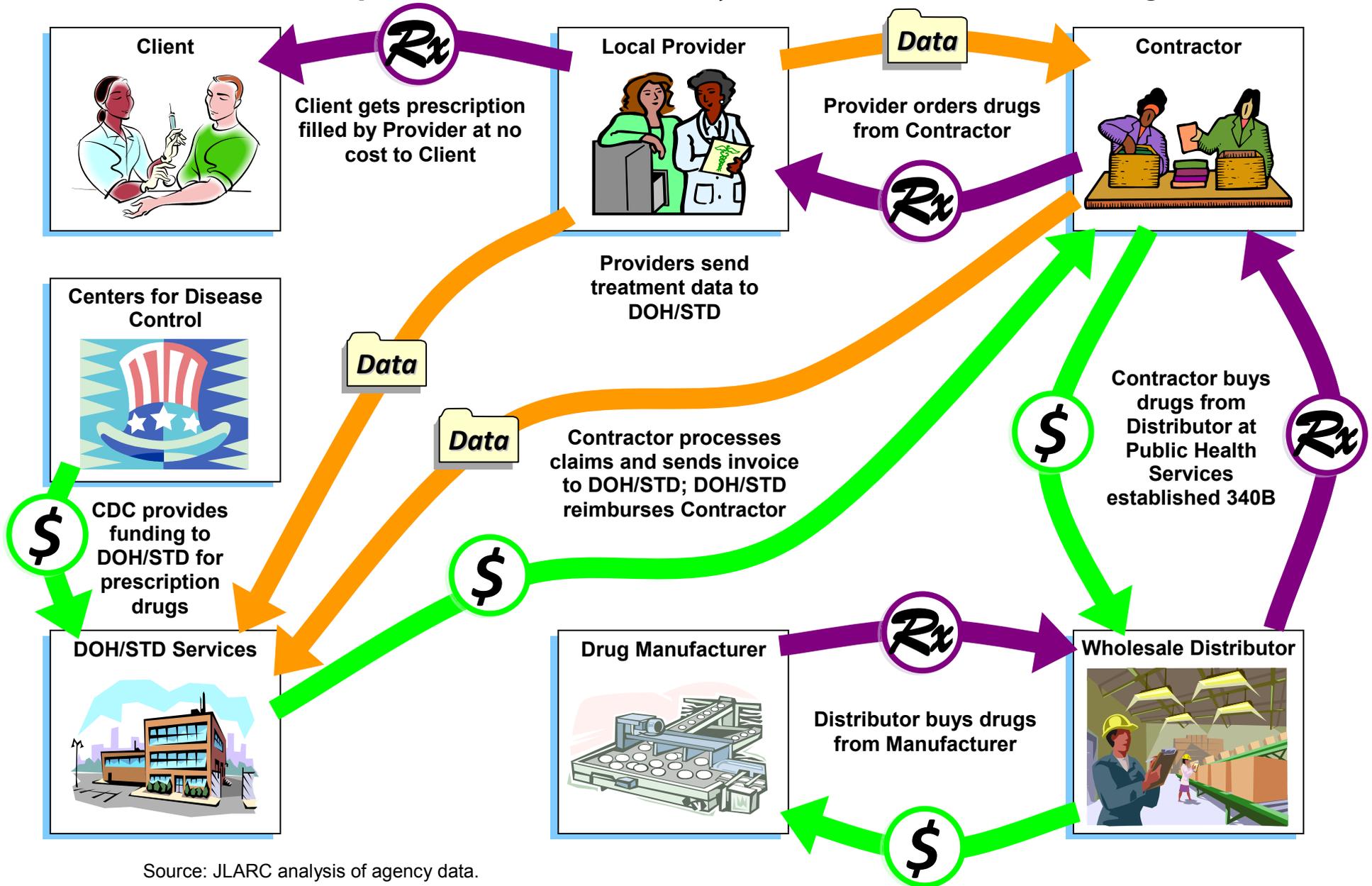
Source: JLARC analysis of agency data.  
 NASTAD: National Alliance of State and Territorial AIDS Directors.

### Exhibit 13 – Department of Veterans Affairs Prescription Drug Purchasing Schematic



Source: JLARC analysis of agency data.

### Exhibit 14 – Department of Health Sexually Transmitted Disease (STD) Program



Source: JLARC analysis of agency data.



