



Millions in Pharmaceutical Savings Are Achievable Within Delaware's Correctional Facilities Without Compromising Services

February 2021



A special report by Delaware State Auditor
Kathy McGuinness, RPh, CFE

Executive Summary

The Office of the Auditor of Accounts Office (OAOA) prepared this special report to examine the model now used by the Department of Corrections (DOC) to purchase prescription drugs for inmates in Delaware correctional facilities. It includes an evaluation of the purchasing contract between DOC and its vendor Correct RX (CRX) from July 1, 2014 to June 30, 2018, including the two additional two-year renewal addendums that DOC chose to execute; a comparison of prescription drug purchasing models for other populations in Delaware's care through the state's Group Purchasing Organization (GPO), Minnesota Multistate Contracting Alliance for Pharmacy (MMCAP Infuse); and a review of national trends of government pharmaceutical purchasing. Additionally, we calculated potential cost savings for three separate options if DOC's purchasing model was converted to one under MMCAP Infuse. If DOC contracted through MMCAP Infuse instead of with CRX, we estimated that Delaware taxpayers could have saved as much as \$44.1 million over seven years for pharmacy services. This would have reduced their annual budget for pharmacy services by nearly half. Our study reviewed DOC prescription drug spending for fiscal years 2019 and 2020 to prepare our estimates.

Acknowledgement

OAOA greatly appreciates DOC's cooperation in allowing us to review their contract with CRX and relevant documentation and salutes the department's commitment to delivering quality services on behalf of taxpayers at the best possible cost. While we recognize the importance of establishing good relationships with vendors and applaud the customer service that DOC indicates CRX provides, we have a statutory authority to ensure fiscal oversight of the people's money.



State of Delaware
Office of Auditor of Accounts
Kathleen K. McGuinness, CFE, RPh
State Auditor



Dear fellow Delawareans,

For the past few years, state governments across the country have faced a major issue with the rise of prescription drugs and healthcare costs. As a licensed pharmacist and pharmacy owner, I can attest to the complications that come with purchasing medication and the frustrations of negotiating contracts with fair reimbursement.

The State of Delaware has attempted to confront rising costs through interagency and multistate purchasing contracts and other approaches. One agency that has been affected by the rise in prescription drug prices is the Department of Corrections (DOC). DOC faces major pressure due to pharmaceuticals' role in providing quality of care to its inmate population at a reasonable cost. DOC houses an inmate population of 4,953, who are susceptible to communicable diseases in addition to other common illnesses. To provide medication for inmates – which your state tax dollars pay for -- DOC has contracted with private provider Correct Rx (CRX).

In the spirit of efficiency and effectiveness, per Delaware Code, Title 29. State Government §2909, we have reviewed DOC's contract with CRX, along with pharmaceutical spending reports for fiscal years ending June 30, 2019, and 2020. As we reviewed the contract between DOC and CRX, we noticed that the contract was not detailed enough to tell us what pharmacy services would be purchased or what pharmacy services would be provided. Furthermore, a review of DOC's pharmacy services spending revealed that resources were not being used efficiently. The rising pharmaceutical costs of DOC calls for a need of a better contract system. Again, as a licensed pharmacist, I can say that contracts with private pharmacy vendors can be complex and challenging to navigate. We reached out to the state's group purchasing organization (GPO) Minnesota Multistate Contracting Alliance Infuse (MMCAP Infuse) to see if DOC could benefit from their specialized purchasing contracts as other state agencies have.

Since providing quality healthcare to inmates at a reasonable cost should be the goal of DOC, the focus of this engagement is to determine the amount of potential savings to Delaware taxpayers if DOC changes its pharmaceutical spending model from private provider CRX to the state's GPO MMCAP Infuse. This special report provides a thorough review of DOC's contract with CRX. It suggests additional ways that DOC can save money on pharmacy services through MMCAP Infuse and reviews government pharmaceutical purchasing nationwide. We found that DOC could save approximately \$31.5 million and up to \$44.1 million by utilizing MMCAP Infuse contract services. This savings is almost half of their pharmaceutical spend. By enlightening DOC to the options available, our hope is that DOC will consider and transition to a provider who specializes in pharmacy procurement so that prescription drug costs will be lowered.

Thank you for the opportunity to serve you.

Sincerely,

A handwritten signature in blue ink that reads "Kathy McGuinness".

Kathy McGuinness, RPh, CFE

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Abbreviations

Cardinal Health – Cardinal Health Pharmacy Services

CRX – Correct Rx Pharmacy Services, Inc

DOC – Department of Corrections

DSAAPD – Division of Services for Aging and Adults with Physical Disabilities

DYRS – Division of Youth Rehabilitative Services

GPO – Group Purchasing Organization

MMCAP Infuse – Minnesota Multistate Contracting Alliance for Pharmacy Infuse

OAOA – Office of the Auditor of Accounts Office

PIPM – Per Inmate Per Month

The mission of the Delaware Office of the Auditor of Accounts

The Delaware Auditor of Accounts serves Delawareans by ensuring accountability in the use of taxpayer dollars through independent assessments of financial operations, performance management and statutory compliance of state government.

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Background: Drug Purchasing

National Overview

The rising costs of prescription drugs have become a major issue for state governments across the United States. Government programs are finding that cost increases can be attributed to individual state's abilities to effectively negotiate prescription drugs prices and the lack of competition in the pharmaceutical market.¹ In particular, states' corrections systems have seen a dramatic rise in their healthcare costs due to the increase in pharmaceutical drug prices.

Prisons and correctional facilities also maintain an aging population who are susceptible to transmissible diseases, such as HIV/AIDS and Hepatitis C that require medication therapies. Since correctional facilities are required to provide healthcare to inmates at a level comparable to the care they would receive in the community, these facilities continuously strain their budgets to provide inmates with medications at a low cost.² This strain could lead to substandard care, delays in treatment, or even the absence of care for inmates. To better understand the budgetary effect of rising costs, a correctional facility must establish a drug-purchasing strategy, formulary, and copayment schedules to deliver services as cost effectively as possible.

Many state corrections departments contract with private pharmacy service providers to obtain the necessary medication for their inmates. The contracts made with these providers are sometimes overly complicated and state agencies often do not have the expertise to navigate their contents. This could lead to agencies overpaying for services. That's why states are now looking to healthcare group purchasing organizations (GPOs) for assistance to relieve the stress of rising prices and to restore confidence in the contracting process. *"GPOs leverage the collective purchasing power of their members to obtain significant value on supplies and services, and organizations, such as the Minnesota Multistate Contracting Alliance for Pharmacy Infuse (MMCAP Infuse) exclusively serve government healthcare facilities."*³ States are finding it more costly to provide prescription drugs through private pharmacy service providers given options available to reap savings from changing their purchasing models.

Delaware Overview

In 2014, the Delaware Department of Corrections (DOC) directly contracted with correctional pharmacy service provider Correct Rx Pharmacy Services, Inc (CRX) to provide pharmacy services to Delaware's inmate population for a four-year term. At the sole discretion of DOC, the contract may be renewed for two additional two-year terms.

¹ "Why Are Prescription Drug Prices Rising and How Do They Affect the U.S. Fiscal Outlook?" Peter G. Peterson Foundation. Peter G. Peterson Foundation, November 14, 2019.

² Schaenman, Philip S., Elizabeth Davies, Reed Jordan, and Reena Chakraborty. "Opportunities for Cost Savings in Corrections Without Sacrificing Service Quality: Inmate Health Care." Urban Institute, May 4, 2020. <https://www.urban.org/research/publication/opportunities-cost-savings-corrections-without-sacrificing-service-quality-inmate-health-care>

³ "GPOs Help State-Run Facilities Fulfill Their Mission." The Journal of Healthcare Contracting. Accessed December 10, 2020. <https://www.jhconline.com/gpos-help-state-run-facilities-fulfill-their-mission.html>

The contract between DOC and CRX consists of three separate service charges that are billed on a monthly frequency:

- Medication acquisition costs;
- A Per Inmate Per Month (PIPM) management fee that represents the monthly inmate population; and
- A monthly Consultant Pharmacist Fee that includes the cost for five Clinical On-Site pharmacists.

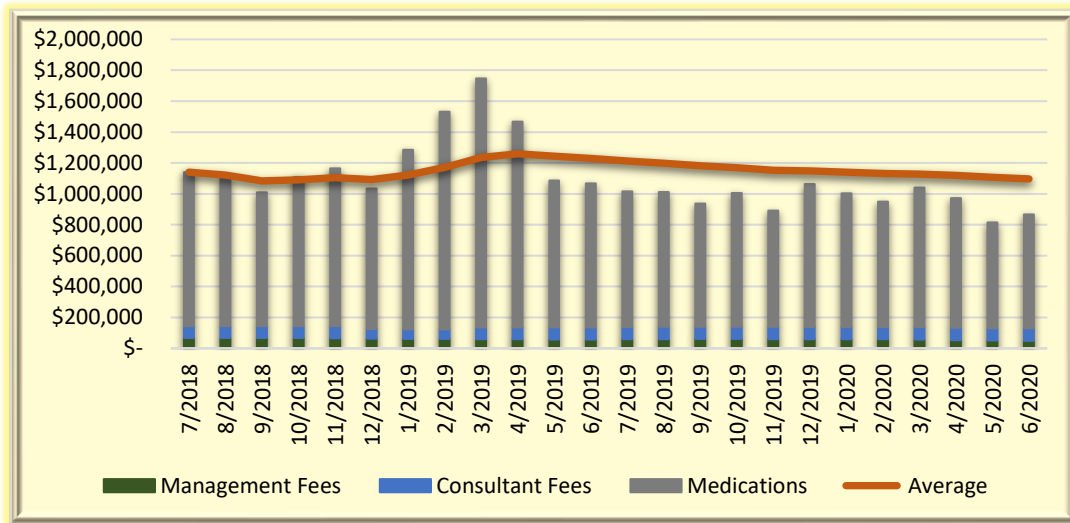
The contract stipulates that the billing rate for both management and consultant fees will be automatically increased annually by 3 percent on the contract's anniversary date (July 1st).

DOC chose to renew the contract with CRX for an additional two-year term offered for the period of July 1, 2018 through June 30, 2020. DOC renewed the contract again in July 2020 for another two years. In both renewals, the contract pricing for the monthly PIPM management fee and the billing rate for on-site pharmacists (consultant fee) increased by 3 percent, although each renewal addendum reads "may be increased". All other services and pricing provided were in accordance with the same terms and conditions set forth in the original contract dated July 1, 2014.

DOC Pharmaceutical Spending

DOC spent more than \$26 million for pharmaceutical services for fiscal years 2019 and 2020 or \$13.1 on average, with pharmacy operations at four facilities. This amount does not include credit returns for unused medication that averaged to \$500,000 per year. DOC spent about \$960,000 per month for medications in fiscal years 2019 and 2020 or about \$11.5 million on average per year. OAOA's cost analysis does not include a comparison of medication prices, since this information is proprietary. DOC also spent \$722,499 on average per year for management fees and \$917,964 on average per year for consultant fees for during this two-year period. See Figure 1 below for a summary of fees over the two fiscal years we studied.

Figure 1: Summary of DOC Pharmaceutical Spending for FY 2019-2020



Management Fees

The contract set the rate for the PIPM management fee at \$9.98 per inmate per day based on the Average Daily Population (ADP) that is defined as the actual daily population for the preceding month in the 4-year contract beginning in fiscal year 2015. CRX billed DOC a management fee of \$11.23 and \$11.57 in fiscal years 2019 and 2020, respectively. The automatic fee increases of 3 percent annually stated in the contract at the start of the fiscal year reflect the change in the dollar amount.

Our analysis confirmed that the 3 percent automatic increase was added to fiscal years 2019 and 2020 for the management fee, despite that the average population declined by 27 percent from fiscal years 2015 to 2020. Tables 1 shows the financial impact of the automatic fee increase for management fees and Figure 2 further illustrates the point that imposed increases for management fees is misaligned over time given the population served.

Table 1: Management Fees (PIPM) Charged for FY 2015-2022

Management Fees Per Inmate* Per Month					
Fiscal Year	Average Monthly Rate**	Average Population***	Fees	Annual Cost	Average Cost per Inmate
2015	\$9.98	6,824	\$68,104	\$817,242	\$120
2016	\$10.28	6,559	\$67,427	\$809,118	\$123
2017	\$10.59	6,386	\$67,628	\$811,533	\$127
2018	\$10.90	6,221	\$67,809	\$813,707	\$131
2019	\$11.23	5,614	\$63,045	\$756,677	\$135
2020	\$11.57	4,953	\$57,306	\$688,269	\$139
2021	\$11.92	4,659	\$55,535	\$666,420	\$143
...2022	\$12.27	4,365	\$53,559	\$642,703	\$147

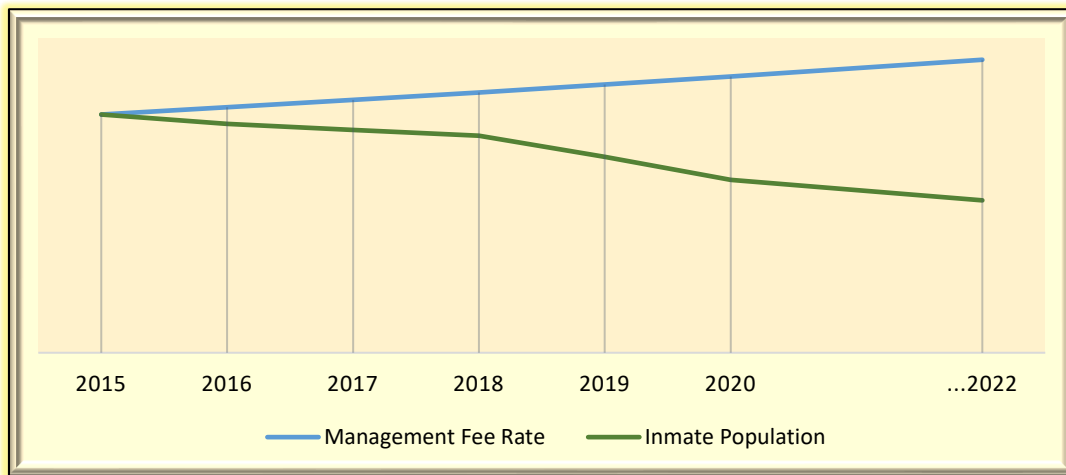
* DOC defines inmate as any person who is incarcerated in a DOC L4 or L5 facility. They can be sentenced or on pretrial detainee status.

**This rate is per inmate.

***Based on Avg Daily Population, Delaware Department of Correction Annual Reports FY2016-FY2018.

****All figures are rounded to the nearest dollar.

Figure 2: Changes in Costs Proportionate to Inmate Population



An inquiry with DOC about service delivered revealed that the average number of inmates that received medication was 3,243, while the average population for the year was 4,587. Although the number of inmates taking medication accounts for 70 percent of the inmate population, DOC is paying CRX a PIPM management fee for all inmates even those who are not taking medication. In other words, DOC spent about \$423,137 combined for FY 2019 and FY 2020 in management fees when no services were provided. We believe that the structure of the PIPM

management fee and how it is applied contradicts DOC’s goal of reducing Delaware’s inmate population, since the rate automatically increases per year even with fewer inmates.

Consultant Fees

The contract states that the annual cost for Clinical On-Site pharmacists (consultant fees) is \$823,820 billed monthly at \$68,651.67 per month at the contract start in fiscal year 2015. CRX billed DOC for a monthly consulting fee of \$77,269 and \$79,587 in fiscal years 2019 and 2020, respectively. At this rate, each Clinical On-Site pharmacist costs about \$15,685 per month or \$188,227 per year based on a two-year average. Our analysis also confirmed that the 3 percent automatic increase was applied in fiscal years 2019 and 2020. Table 2 provides a summary of how consultant fees impact total spending for pharmacy services over time. The costs per inmate continue to rise each year, including years with a notable decrease in inmates.

Table 2: Consultant Fees Charged for FY 2015-2022

Consultant Fees Charged				
Fiscal Year	Number of Inmates*	Monthly Cost	Annual Cost	Costs per Inmate**
2015	6,824	\$68,653	\$823,837	\$121
2016	6,559	\$70,712	\$848,553	\$129
2017	6,386	\$72,834	\$874,009	\$137
2018	6,221	\$75,019	\$900,229	\$145
2019	5,614	\$77,269	\$927,236	\$165
2020	4,953	\$79,587	\$955,053	\$193
2021	4,659	\$81,975	\$983,705	\$211
...2022	4,365	\$84,434	\$1,013,216	\$232

*Based on Avg Daily Population, Delaware Department of Correction Annual Reports FY2016-FY2018.

**Figures are rounded to the nearest dollar.

OAOA found in its analysis that for FY 2019, DOC paid management and consultant fees of \$1,637,557 for 5,614 inmates, while paying \$1,643,369 for 4,953 in FY 2020. Due to contract provisions, DOC paid \$5,812 more for services to CRX even though the inmate population decreased by 12 percent. See Table 3.

Table 3: Summary of Fees

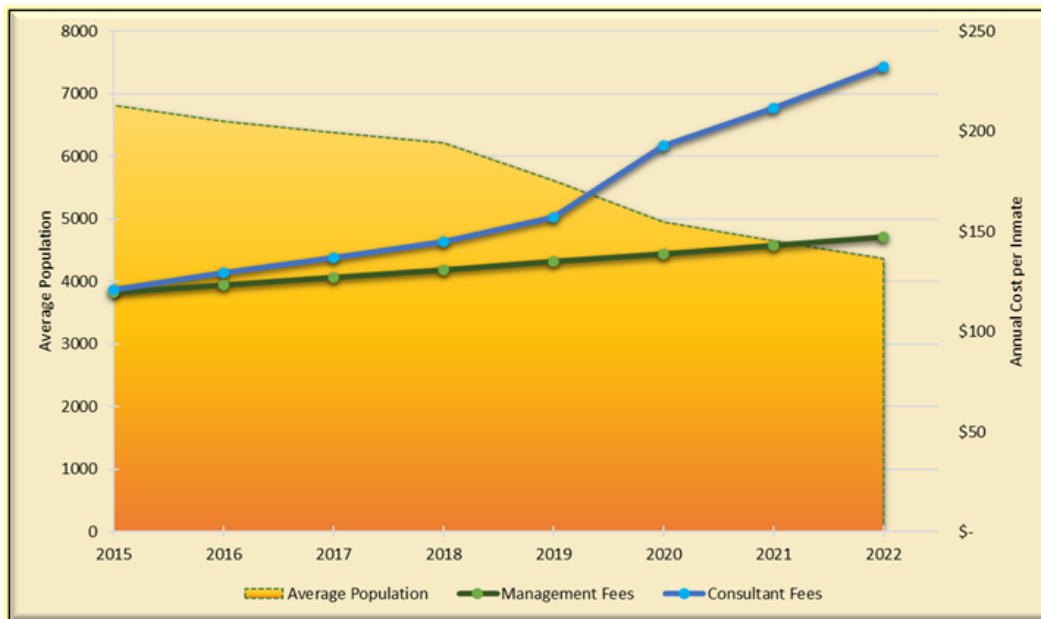
Summary of Fees	Inmate Population*	Average Monthly Cost	Annual Cost
FY 2019 Total	5,614	\$136,463	\$1,637,557
Consultant Pharmacist Fee	-	\$73,406	\$880,875
Management Fee	-	\$63,057	\$756,682
FY 2020 Total	4,953	\$136,947	\$1,643,369
Consultant Pharmacist Fee	-	\$79,588	\$955,054
Management Fee	-	\$57,360	\$688,315
2-Yr Total	10,567	\$273,410	\$3,280,926

*Based on Avg Daily Population, Delaware Department of Correction Annual Reports FY2016-FY2018

**Figures are rounded to the nearest dollar

A further review of fees paid to CRX revealed that the average inmate population decreased by 32 percent from fiscal years 2015 to 2021, while the average cost per inmate increased 19 percent and 75 percent for management and consulting fees, respectively. From this we can conclude that not only was the potential savings from this population decrease not realized, but also that DOC is spending considerably more per inmate, as the original contract is extended. See Figure 3.

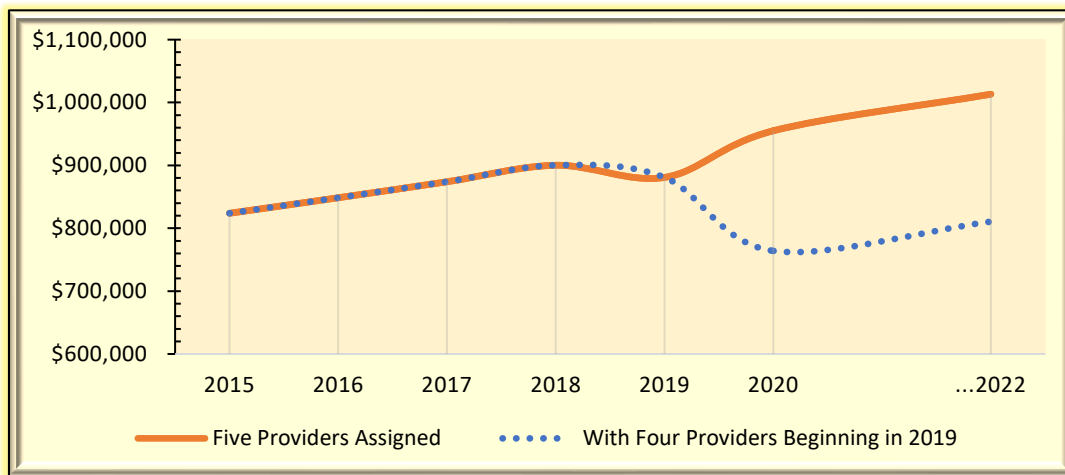
Figure 3: Inmate Population vs. Average Cost per Inmate



Our review of the monthly invoices for FY 2019 showed that DOC paid for only four Clinical On-Site pharmacists for three months during that year (December-February). We inquired with DOC about this reduction and whether they encountered a service disruption with one less pharmacist. They recalled that one of the pharmacists left to pursue other employment opportunities and they did not recall encountering a disruption in service. To ensure that DOC is paying only for services needed, the audit portion of the contract must be detailed to include audit schedules for each service provided by CRX. This is particularly important given the fluctuating inmate population. For example, we noted the average inmate population decreased 29 percent from July 1, 2019 to June 1, 2020, representing 1,745 fewer inmates. Yet DOC paid more in consultant fees. Since DOC is paying CRX for services, we believe that the vague auditing language presents an oversight issue that should have been explained in specific detail within the contract. This would reassure DOC that the controls, processes, and services of CRX are being used effectively. Since there was no disruption in services, DOC would have benefitted from having one less pharmacist for fiscal years 2019 to 2022, resulting in an estimated savings of approximately \$776,000 for that period of time. Had there been a provision in the contract for an automatic reduction in consultant fees based on a decrease in the population served in effect DOC would have only been paying for three pharmacists based on the population decline in FY 2021. See Figure 4.

Had there been a provision in the contract for an automatic reduction in consultant fees based on a decrease in the population served, in effect DOC would have only been paying for three pharmacists.

Figure 4: Consultant Fees Annual Cost



The total DOC spending for pharmacy services shown in Table 4 includes costs of approximately \$14,748,089 and \$11,576,630 for fiscal years 2019 and 2020, respectively. This is a \$3 million dollar decrease in mainly medication spending that could be further reduced if DOC utilized contracts through MMCAP Infuse. MMCAP Infuse contracts ensure aggressive price negotiations so that the state gets their pharmaceuticals at the best price.

Table 4: DOC Annual Spending FY19 and FY20

Summary of Costs by FY	
FY 2019 Total	\$14,748,089
Consultant Pharmacist Fee	\$880,875
Management Fee	\$756,683
Medication Spend	\$13,110,532
FY 2020 Total	\$11,576,630
Consultant Pharmacist Fee	\$955,054
Management Fee	\$688,315
Medication Spend	\$9,933,261
2-Yr Total	\$26,324,719
Consultant Pharmacist Fee	\$1,835,928
Management Fee	\$1,444,998
Medication Spend	\$23,043,793

*Figures are rounded to the nearest dollar.

Interpretation of Pharmaceutical Spending Summary

Overall, our review determined that DOC does not fully know what value they are receiving from services provided by CRX, since DOC has no ability to control costs and does not have a comprehensive risk-based audit program, and therefore may not be getting the best return for taxpayer dollars. For example, a review of invoices and the contract reveals that actual services rendered are not provided in detail on invoices to know whether the volume of services warrant the need for 5 Clinical On-Site pharmacists. Additionally, there is no wording in DOC’s contract with CRX concerning discounts, rebates, or cost containment strategies. DOC only receives reimbursement for unused medication. This means that DOC is completely trusting CRX to provide the best possible price for medication. It’s our opinion that DOC should consider transitioning to a provider who specializes in pharmacy procurement to lower prescription drug costs and to reassure taxpayers they are getting the best value for their dollar.

DOC only receives reimbursement for unused medication. This means that DOC is completely trusting CRX in providing the best possible price for medication.

How Can DOC Cut Spending for Pharmacy Services Nearly In Half?

DOC and MMCAP Infuse

What is MMCAP Infuse?

MMCAP is a GPO for government organizations that provide healthcare services. Its goal is to “ensure best value for pharmaceuticals and healthcare products and services to government facilities across the nation through executing contracts that leverage aggregated member volume to drive deeper discounts”.⁴ Through MMCAP Infuse states receive reduced costs for products and services, annual wholesaler share-back credit, member-controlled formulary and access to specialized and experienced staff. **Currently, MMCAP Infuse has a joint powers agreement with Delaware.** It states that eligible entities are permitted to access any or all of the MMCAP Infuse contracts from pharmacy, prescription fill services, medical supplies, and more. **Delaware DOC is eligible to use any of MMCAP Infuse contracts available.** “Because of their relationships at all points of the supply chain – from drug manufacturers and storage facilities, to hospitals, and other healthcare providers – GPOs are able to meet the unique population needs of state facilities.”⁵ The Division of Services for Aging and Adults with Physical Disabilities (DSAAPD) and the Division of Youth Rehabilitative Services (DYRS) each use MMCAP Infuse contracts to procure prescription drugs from the state’s central pharmacy, Cardinal Health Pharmacy Services (Cardinal Health). The two graphics that follow illustrate 1) the potential savings DOC could realize by converting their existing pricing model and 2) a comparison of contracted pharmacy services demonstrating purchasing value.

⁴ “GPOs Help State-Run Facilities Fulfill Their Mission.” The Journal of Healthcare Contracting. Accessed December 10, 2020.

⁵ Ebert, T. (n.d.). GPOs help state-run facilities fulfill their mission. Retrieved December 10, 2020, from <https://www.jhconline.com/gpos-help-state-run-facilities-fulfill-their-mission.html>

Cost Savings from Using MMCAP Infuse Purchasing Agreements

Another goal of this study was to calculate an estimated cost savings DOC could generate by converting their purchasing agreement to MMCAP Infuse and to determine whether the amount of savings justifies DOC dissolving their current contract with CRX or using MMCAP contracts at the end of CRX's contract period that concludes June 30, 2022. We reviewed the pricing models associated with MMCAP Infuse and CRX, and came up with the following scenarios:

1. **Option 1:** DOC will maintain its relationship with CRX but move to a model under the MMCAP Infuse contract. Since CRX recently signed with MMCAP Infuse as a vendor, DOC would be able to negotiate their contract with CRX or other vendors to benefit from competition and lower prices through MMCAP Infuse. This would result in greater transparency between provider and consumer. Once DOC identifies what services are being rendered, they will be able to cut costs on management and pharmacy fees as needed. There are no consultant fees associated with MMCAP Infuse as everything is paid through the management fee, which is less than the current CRX management fee. Choosing this option, **DOC would save approximately \$1 million a year.**

There are no consultant fees associated with MMCAP. Everything is paid through the management fee, which is less than the current CRX management fee.

2. **Option 2:** DOC will keep CRX but carve out, through the central pharmacy Cardinal Health, options that allow for purchasing specifics (certain vaccines and medications). By carving out only the medicines that are needed, DOC will be able to reduce the number of pharmacists used and possibly generate a discount for timely repayment from the wholesaler. Choosing this option **DOC would save approximately \$5 million a year.**
3. **Option 3:** DOC will have full acceptance of using a central pharmacy through MMCAP Infuse and the model that Delaware is contracted with through Cardinal Health. By centralizing their drug purchasing, DOC can take advantage of bulk purchasing discounts through rebates. When purchasing volume increases, the states' rebate tier goes up as well, resulting in more cost savings for all participating state agencies. In purchasing all pharmacy services through the central pharmacy there is little service disruption, as an existing framework is in place and a relationship has already been established. Choosing this option, **DOC would save approximately \$6.3 million a year.**

3 Options aimed at lowering the cost of pharmaceutical purchases

Option 1 - Change the purchasing model. Use MCCAP's contracts to either keep CRX or choose another vendor

Option 2 - Carve out services from overall purchases to buy from the central pharmacy

Option 3 - Purchase all pharmaceutical services through the central pharmacy

		Option 1	Option 2	Option 3	
<u>Benefits</u>	Better contract management	■	■	■	
	Increased transparency	■	■	■	
	Better ability to audit	■	■	■	
	Lower medication costs	■	■	■	
	Consolidated purchasing to lower medication costs for <u>all</u> DE facilities	□	□	■	
	Existing framework in place and relationship established	□	■	■	
	Little if any service disruption	■	■	■	
	Multiple ways to save	□	□	■	
<u>Savings</u>		Up to...			
	No/Reduced consultant fee	100%	□	□	■
	Reduction of management costs	50%	□	□	■
	Medication (*once DOC purchasing is combined with DE facilities)	32%	□	■	*■
	Cost of goods savings (based on purchase volume & payment efficiency)	6%	■	■	■
	Shareback savings for medications	2%	■	■	■
Quantified annual savings estimate		\$1M	\$5M	\$6.3M	

Converting to these options under MMCAP would have saved DOC approximately \$31.5 million and up to \$44.1 million once the recent contract renewal expires in 2022. We determined that DOC's conversion to Option 3 would save DOC nearly half of their total pharmacy spend.

By utilizing MMCAP Infuse or purchasing services through a central pharmacy, DOC would recognize savings through the reduction of management and consultant fees, reduced prices of medication, cost of goods savings based on purchasing volume and timely repayment as well as share-back savings for medications. Converting to these options under MMCAP would have saved DOC approximately \$31.5 million and up to \$44.1 million once the recent contract renewal expires in 2022. We determined that DOC's conversion to Option 3 would save DOC nearly half of their total pharmacy spend.

Value of Purchasing – Contracted Pharmaceutical Services

DOC – Department of Corrections (Vendor: Correct Rx Pharmacy Services, Inc.)

DSAAPD – Division of Services for Aging and Adults with Physical Disabilities (Vendor: Cardinal Health Pharmacy Services, LLC.)

DYRS – Division of Youth Rehabilitative Services (Vendor: Cardinal Health Pharmacy Services, LLC.)

	DOC	DSAAPD	DYRS
Five-day per week onsite services	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Emergency and after-hours pharmaceutical services	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Medication delivery to facilities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Ongoing training of staff	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Continuous quality improvement relative to patient care	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Variable costs based on facility census	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Itemized medication billing statements	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Credits for returned medications	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Increased costs incurred depending upon number of providers providing services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Budgeted annual cost increases	3%	2%	2%
Number of days required to terminate contract for cause	120	35	35
National cooperative group purchasing organization contract leverages aggregated member volume to reduce cost	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Annual wholesaler shareback credit	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Member controlled formulary	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Cost of goods discounting on brand and generic drugs	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Monthly detailed reporting and financial review	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Ability to audit promotes transparency	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Contract review	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Ability to suspend contract	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

National Trends

Currently, Delaware’s healthcare delivery system uses a contracted provision model in which a private vendor provides care for its correctional population. Other states use direct provision, state university, or a hybrid model to provide services to their correctional population. There is no specific model of care that is superior to another. Each requires safeguards and monitoring to ensure that the department’s medical needs are being met.⁶ We are currently seeing a slew of states, such as Pennsylvania, Virginia, New Jersey, Texas, and Louisiana use other healthcare delivery models to meet their pharmaceutical spending needs.

Many states have found MMCAP Infuse to be useful in reducing overall costs. For example, in February 2019, the Pennsylvania Department of Corrections utilized MMCAP Infuse contracts to continue purchasing medication through their previous vendor Diamond Pharmacy Services. This change has given Pennsylvania an estimated \$1 million dollar savings a year by reducing prescription dispensing fees, utilizing generic medication, and getting rid of transmission fees.⁷ States like Montana, Oklahoma, and Virginia are also opting to leave their contracts with private vendors in order to utilize MMCAP contracts.

A recent inquiry with MMCAP Infuse on national trends revealed that of the three contracts that MMCAP offers, states are moving from the in-house pharmacy model and migrating toward outsourced pharmacies. In 2017, MMCAP Infuse issued a request for proposal (RFP) that created three contracts for their members to choose from. These models are outsourced pharmacy in which the state negotiates their pharmaceutical contract with a vendor through MMCAP Infuse; privately operated in-house pharmacies, where the supplier provides labor and management but the state owns the equipment and building where the supplier is located; and lastly the in-house model, in which medicine is purchased by the state and state employees run the pharmacies. The in-house model is the MMCAP Infuse standard model and states like New York, Ohio, North Carolina, South Carolina, and Florida use this model.

MMCAP Infuse also saw a nationwide transition of correctional departments to the 340B Drug Discount Program. The 340B program requires drug manufacturers to provide outpatient drugs to eligible covered entities at a reduced price. The intent of this program is to provide those covered entities access to low-cost medications in order to expand the type and volume of care they provide their patient populations.⁸ Since Corrections is not eligible to be a 340B entity, departments have been partnering with their state’s public health agency to provide services covered by 340B. For example, if a DOC has STD testing done using public health resources and maintains all reporting requirements for the services those patients are receiving; those same patients are eligible for medications purchased at 340B pricing. Even though MMCAP Infuse does not control the federally established pricing levels, it does provide drug wholesaler

⁶ “Pharmaceuticals in State Prisons,” December 13, 2017. <https://www.pewtrusts.org/en/research-and-analysis/reports/2017/12/pharmaceuticals-in-state-prisons>

⁷ “PA Department of Corrections News Release,” February 13, 2019. https://www.media.pa.gov/Pages/corrections_details.aspx?newsid=382

⁸ Kirk Williamson, NGA Health and Jane Horvath, Horvath Health Policy to Wisconsin Pharmacy Cost Committee, National Governors Association, State Approaches to Leverage the 340B Drug Discount Program, <https://etf.wi.gov/boards/wpscsc/2019/09/26/item3/direct>

contracts that deliver these pricing levels to the in-house or outsourced pharmacy that DOC uses. States like Indiana, New Jersey, Virginia, and Wisconsin participate in the 340B program and benefit from its pricing set up.

While states are utilizing MMCAP Infuse contracts to save on pharmaceutical spending, MMCAP Infuse noted that several correctional departments are joining to access non-pharmaceutical contracts. For example, Connecticut, Maine, Maryland, New York, and Pennsylvania all use MMCAP Infuse contracts for drug testing. Other states may use MMCAP Infuse for medical and dental supplies, drug testing, and services pertaining to influenza. By carving out these specific services, states can search for the best price for these services.

Overall other states are making cost savings by switching to a model under MMCAP Infuse. MMCAP Infuse continues to expand their member profile and one of the biggest member profile increases is within state departments of correction. The options proposed in this report are within national trend of how MMCAP Infuse members have evolved their correction departments. By reviewing these trends, Delaware DOC would be able to find the most cost-effective way to provide pharmaceuticals to the population under its care.

Observations

Opportunity To Save Millions: Reconsider Contract Model	
1.0	National Trends DOC does not fully know what service value they are receiving from CRX, since DOC has no ability to control costs, and therefore may not be getting the best return. Our review of national trends of government pharmaceutical purchasing found other states have moved away from private providers to GPOs to reduce costs.
2.0	Vendor Selection DOC chose to contract with an out-of-state vendor. CRX is an out-of-state vendor headquartered in Hanover, Maryland when Cardinal Health is a Delaware supplier.
Opportunity to Enhance Contract Administration Oversight and Controls	
1.0	CRX Contract There are risks with every contractual relationship and we found the CRX contract had areas of concern, because of the looseness of the language and the lack of details. This made it difficult to understand all contract requirements and expectations that would fully provide DOC the value and fiscal control. Further, our cost analysis found that DOC overspent millions on pharmaceuticals and services.
	1.1 Financial Terms The contract does not give DOC the ability to control costs. It only addresses the credit for any unused medication. The contract does not include terms for receiving discounts, rebates, or other cost reduction strategies, such as purchasing generic medicine, bulk medication purchases, or the use of a mail order pharmacy.
	1.2 Right to Audit Although the contract includes a right to audit provision, we found the language is vague, unclear, and lacks sufficient details. The vague auditing language presents an oversight issue that should have been explained in specific detail within the original contract and the contract extension addendums.
	1.3 Performance Measures The contract vaguely defines “adequate performance” but does not specifically

	<p>define performance measures and benchmarks. Neither is identified nor detailed in the contract.</p>
	<p>1.4 Program Data</p> <p>The contract does not include provisions to obtain program data or other reports to support program monitoring and oversight to help prevent, detect, and deter waste, fraud, and abuse.</p>
	<p>1.5 Changes</p> <p>The contract does not include change provisions and how those changes may impact the financial terms and use of pharmaceutical products and services efficiently. For example, the contract does not address how changes in the prison population or number of pharmacists could and should be adjusted based on those scenarios.</p> <ol style="list-style-type: none"> 1. The contract includes 5 pharmacists but does not define pharmacists proportionate to the inmate population metric for each one pharmacist. DOC would be able to reduce the number of pharmacists as the prison population decreases with clearly defined contract terms. 2. The contract includes an automatic 3 percent annual increase in fees; however, there is no provision in the contract for an automatic reduction in the consultant fee based on inmate population decreases. The structure of the management fee and how it is applied contradicts DOC’s goal of reducing Delaware’s inmate population, since the rate automatically increases per year even with fewer inmates and only about 70 percent of the inmate population is taking medication.
	<p>1.6 CRX Contract Addendums (Extension of Contract)</p> <p>The CRX contract extensions for each of the two-year periods permitted were brief with no attempt to clarify missing or vague contract terms. Further, it appears that there was no vendor performance or cost analysis performed prior to either of the two contract extensions.</p> <p>The original 2014 contract states that management and consultant fees will increase by 3 percent each year; however, the two-year contract addendums state these fees “may be” increased by 3 percent each year. The addendum does not explain the basis for why the 3 percent increase will or will not be applied and should be clearly detailed in the contract. The 3 percent appears to continue to be automatically increased without any cost analysis.</p>

<p>2.0</p>	<p>Management Oversight and Transparency</p> <p>The contract with CRX lacked adequate oversight, transparency, and comprehensive monitoring needed to assess the value and quality of service given that \$13.1 million in state funds on average was spent in fiscal years 2019 and 2020. Better contract oversight and monitoring activities could have helped ensure that the vendor was not realizing an automatic 3 percent annual increase for services without a regular and thorough study of DOC needs and environment changes.</p>
	<p>2.1 Lack Of Cost Analysis and Other Program Data Monitoring</p> <p>To our knowledge, DOC had not used data to perform program monitoring to improve data quality and oversight to ensure program integrity. Program monitoring involves examining key elements of the program and data to ensure products and services are being provided as contracted and to identify aberrant trends that may signal a problem. For example, DOC had not performed a cost analysis of their contract activities that would have helped them identify problems, such as overpaying for services in areas where expenses could be reduced. If DOC had performed an annual cost analysis more than \$44 million could have been saved over the past seven years given the alternatives available.</p> <ul style="list-style-type: none"> a) Our cost analysis of the contract provision for the 3 percent annual increase in management and consultant fees found DOC spent more money per inmate over the term of the contract period and each time it has been extended. These imposed increases for management and consultant fees are misaligned over time given the population served. b) Our cost analysis and review of DOC’s spending for pharmacy services revealed that resources were not being used efficiently. DOC could have reduced the number of pharmacists from 5 to 3 pharmacists and would have realized cost savings based on the declining prison population.
	<p>2.2 Lack of Expenditure Monitoring on Invoices</p> <p>To our knowledge, DOC has not initiated an approach to managing the pharmaceutical program financial integrity to include comprehensive invoice auditing even though billing errors and fraud risks exist.</p>
	<p>2.3 Vendor Failure to Communicate Cost Savings Opportunities</p> <p>The CRX vendor has not communicated cost saving opportunities even though the vendor must recognize DOC is paying more than the original contract terms given the reduced prison population.</p>

Recommendations

Save Money and Improve Contract Management	
1.0	Save Money 1.1 Change Contract Model and Leverage MMCAP Infuse Cost Savings Potential Since DOC is eligible to use any of MMCAP Infuse contracts available, we recommend DOC evaluate the options presented in this report and utilize MMCAP Infuse and/or purchasing services through a centralized pharmacy (<i>See 3 Options for Saving and Value of Purchasing graphics</i>). This would allow DOC to contain their costs through the reduction of management and consultant fees, obtain reduced medication prices, and achieve savings based on purchasing volume discounts. 1.2 Negotiate the 3 percent management and consultant fees for FY 2022. If DOC chooses to continue to do business with CRX for the remaining year of the final two-year contract extension ending June 30, 2022, DOC should negotiate the automatic fee increase for both management and consultant fees given the addendum language that reads, “fees may be increased” and in light of population and environment changes to potentially save taxpayers money in FY 2022.
2.0	Contract Management 2.2 Improve Contract Management Immediate action should be taken to address the contract’s lack of details and vagueness by more fully addressing the right to audit, access to data, benchmarks and performance measures, and financial elements. This guidance should be applied to any contract DOC negotiates with any vendor for pharmaceutical services now and in the future, such as: a) Develop a comprehensive plan to define and document contract administration requirements, tools, and procedures. b) Establish minimum contract language standards and provisions for all DOC contracts. c) Review all contract terms prior to approving any contract extension or addendum for updates and changes. d) Require an evaluation of vendor performance, cost analysis, and other

	<p>relevant contract activities to be performed prior to extending any contract. Consider added or discontinuing services at this time.</p> <p>e) Comprehensively monitor program trends to improve data quality and oversight abilities.</p> <p>f) Establish detailed audit requirements for all contracts in order to conduct regular performance audits.</p> <p>g) Require executive level reporting of contract administration on a periodic basis, including information on problems and corrective action in progress.</p>
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Conclusion

While DOC benefits from its current contract with CRX, DOC could be benefiting from a potential cost savings of \$6.3 million annually by switching to an MMCAP Infuse contract. This savings is significant given that DOC will be cutting their total pharmacy spending by about half. It appears that DOC is not fully benefitting from efficiencies and cost savings associated with the MMCAP Infuse program. MMCAP Infuse would provide DOC with transparency, get the best price for medications, reduce overall pharmacy spending, and save Delaware taxpayers money. If the cost of prescriptions continues to increase at the current rate, annual pharmacy costs will rise astronomically.