
**PHASE TWO FOLLOW-UP ON
PHARMACARE AND EXTENDED HEALTH
BENEFITS PROGRAM AUDIT**

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Preface

This report is a phase two follow-up report on the status of actions taken by departmental management to implement the audit recommendations contained in the report on the audit of the Pharmacare and Extended Health Benefits Program.

The regular reports we present to Audit Committee on our internal audits provide information about how well the government is performing against its own yardstick—its own objectives, legal requirements, and other relevant standards. We report what is working well and what needs improvement.

The objective of a follow-up assignment is to report on whether departments or managers have taken actions to implement the audit recommendations of previously released audit reports. An audit follow-up is an integral part of good management, and is a shared responsibility of departmental management officials and auditors. Corrective action taken by management on specific findings and recommendations is essential to improving the effectiveness and efficiency of government operations. To be effective, each department or agency should establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems should provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

Government Audit Services' approach to a follow-up audit involves two phases.

In phase one, which is usually carried out a year after a report has been issued, we obtain information and assurance from departments as to the status of the corrective actions taken to implement the audit recommendations. The scope of the follow-up in this phase is limited to interviews and document gathering.

In phase two, which is the basis of this report, we typically carry out the follow-up two years or longer after a report has been issued undertaking an additional step of selecting certain recommendations for audit testing and sampling of transactions to validate the assertions made by management.

After the completion of our follow-ups in either phase one or two, we then report on whether progress has been satisfactorily made to address our audit recommendations. We also draw conclusions on all of the follow-up work done on the audit report subject to examination.

PHASE 2 - FOLLOW-UP REPORT ON PHARMACARE AND EXTENDED HEALTH BENEFITS PROGRAM AUDIT

Insured Health and Hearing Services of the Department of Health and Social Services (the *Department*) administers the Yukon's publicly funded Pharmacare and Extended Health Benefits Program (the *program*). It provides for one of the most comprehensive programs for seniors in Canada, in terms of universality of inclusions and citizen's drug and benefit costs. In 2005-06 a federal, provincial and territorial study identified spending on drugs over the previous ten years had grown at twice the rate as on healthcare. This, coupled with the 67% growth in the net cost of the Yukon program, in the four years prior to the audit, identified the potential benefits of including a management audit in the 2005-06 internal audit plan. The report on the audit of the program was first issued as a draft report in 2006, and approved by Audit Committee in 2008.

The objective of this audit was to assess the adequacy of the management, acquisition, use, eligibility and claiming processes for the program. The audit covered the period from April 1, 2003 to March 31, 2005 with the fieldwork being conducted in early 2006. The audit report contained 14 recommendations: four of which touched on performance management and reporting, five of which referred to program costing, drug use and eligibility issues, and five that focused on claims processing.

KEY EVENTS SINCE OUR PHASE 1 - FOLLOW-UP REVIEW IN 2009

The phase 1 follow-up review, reported in September 2009, indicated four recommendations had been addressed and completed following the issuance of the 2008 audit report. According to the new Director, Insured Health and Hearing Services at that time, three recommendations had been partially completed and seven had not been addressed. The conclusion was that the progress undertaken by the department to rectify the key problems formally reported in the 2008 audit report was not satisfactory. Government Audit Services was then requested by the Audit Committee to produce another status report on management's implementation action plan. A second phase 1 follow-up report was issued in November 2009. This report indicated that the outstanding audit recommendations were progressing and still remained on management's radar, but were not fully implemented.

In May 2010, the program's director left the department and the position was not filled until October 2010, hindering progress during that period. Meetings were held with the Extended Benefits and Pharmaceutical Programs manager over the summer of 2010 to gather information to support the phase two follow-up audit. A meeting was subsequently held with the manager and newly appointed director to discuss the way forward.

Management feedback on the status of all recommendations has been reviewed and meetings have been held to discuss progress and to undertake verification work, where applicable, on recommendations that were deemed to have the most impact on operations and program development. The status on the recommendations is described in more detail in the appendix attached to this report.

SUMMARY

Six of the fourteen audit recommendations included in the 2008 audit report on the Pharmacare and Extended Health Benefits Program are considered implemented. The remaining eight recommendations have not been implemented by management, as originally planned.

Specifically, the mandate to initiate negotiations for a new agreement with the Pharmacy Society of Yukon, which expired in May 1997, has not been granted at this time. Two other recommendations tied to the agreement relating to the cost of drugs and the conduct of periodic on-site audits of pharmacies have also not been addressed. Performance measurement processes have not progressed, nor has adequate attention been given to developing a departmental strategy to integrate all drugs purchased through various departmental programs as part of an overall adjudication process.

Some recommendations require Health and Social Services to invest resources in order to make the required improvements.

CONCLUSION

Management was first briefed in 2006 on the audit findings. The report finalized in 2008 identified 14 recommendations that covered various strategic and internal control issues. With eight of the 14 recommendations not implemented in full we cannot report that progress has been made in line with planned expectations.

Delays in progress have been attributed to the transitional state of leadership in the Insured Health Services Office and department since the release of the report and lack of funding for those projects that would require additional resources. Discussions with management have confirmed that all outstanding recommendations are still considered pertinent to the strategic development of the Pharmacare and Extended Health Benefits program. A formal response document has been provided which sets out the department's commitment to continue to pursue the implementation of the outstanding audit recommendations.

Given the number of audit recommendations still in progress it is recommended that Health and Social Services provide a status report to the Audit Committee at the end of the 2011-12 fiscal year on all outstanding recommendations identified in this follow-up report in order to demonstrate that the latest commitments are progressing as planned.

**APPENDIX
STATUS ON AUDIT RECOMMENDATIONS**

RECOMMENDATIONS# 1 AND 13

- *The Pharmacare Office should develop an operational plan that establishes clear and measurable objectives and goals for the Pharmacare and Extended Benefits programs including strategies for change and improvement.*
- *In establishing an operational plan under Recommendation #1, the Pharmacare Office should establish a process for reporting to senior management on the results of its planned operational activities.*

The original report commended staff for their knowledge of current trends impacting the program and acknowledged that informal meetings and discussions did provide a vehicle for identifying how processes could be developed. It was agreed that these vehicles would be formalized by developing an operational plan for the program with a target date of fall 2008. Management continued to develop and discuss program initiatives on a more informal basis in 2008-09. Later these initiatives, including strategies to implement the audit recommendations, were incorporated into the 2009-10 operational plan of the Health Services Branch.

In our review of the branch plan for 2010-11 we found that the program goals that had been previously established in 2009-10 had not been updated from the previous year or fully acted on. The last recorded status update on the program's plan was October 2009. This has been attributed to the absence of an appointed director from May to October 2010.

Although regular meetings have been held to discuss issues, developments, progress and usage based statistics, there is a lack of formal reporting of measurable program performance by the program to senior management.

Status: **Audit recommendations have been partially implemented.**

Way forward: Management has reported a commitment to update and enhance the operational plan for 2011-12. In addition, the director has committed to establishing an annual reporting mechanism.

RECOMMENDATIONS# 2 AND 14

- *The Department should consider the conduct of a program evaluation of the Pharmacare and Extended Benefits program to evaluate the program's objectives, design structure, performance measures and ability to report on results.*

- *As a driver for improved performance and accountability, the Department should explore ways to meaningfully meet the needs of its external users by establishing sound measures for performance reporting in the Main Estimates.*

Management originally committed to give consideration to an independent evaluation of the Pharmacare program with the caveat that the feasibility of this initiative would be dependent on budgetary limitations. The operational plan indicates that a number of reviews of program elements are underway as well as a number of off-plan reviews. These activities have been conducted internally on a sectional basis.

Management has reported that the development of performance measures has been hindered due to lack of resources for the branch, but their development remains a priority.

Status **Audit recommendation has been partially implemented.**

Way forward: Management has committed to developing performance measures as part of the 2011-12 branch work plan. There are internal operational reviews currently underway, and once completed, performance measures will be used as a basis of collecting information to evaluate the program. Management is confident that due to the awareness of current program shortcomings, this approach is more appropriate than funding a full external program evaluation.

Once developed, the performance measures will also help facilitate the enhancement of performance reporting in the Main Estimates.

RECOMMENDATIONS# 3, 4 AND 11

- *The Department should make a concerted effort to negotiate a new Pharmacy Agreement with the Pharmacy Society of Yukon.*
- *The Department should review the reasonableness of the mark-up costs which can be billed by retail pharmacies for drugs in the Yukon with the objective of reducing these mark-ups.*
- *The Pharmacare Office should conduct periodic on-site audits of pharmacies across the Yukon, once the department has a new agreement with the Pharmacy Society of Yukon. The scope of these reviews should include drug pricing and supplier pricing arrangements.*

Concerns were expressed in the audit report that the umbrella agreement between the Government of Yukon and Pharmacy Society of Yukon had not been revisited since it was signed in 1995, despite a 1997 expiration date. This agreement

specifies terms and conditions of the provision of insured health services to eligible beneficiaries and charges for these services, including mark-up costs.

Branch management has confirmed that an options paper relating to the negotiation of the said agreement was drawn up and submitted to senior management early in 2010, but there has been no formal instruction to proceed with negotiations.

It was also recommended that periodic on-site audits of pharmacies be conducted across Yukon. Although not specifically referred to in the negotiations options paper, the implementation of this practice is considered by management to be tied to the negotiations and assurances have been given that the recommendation will be considered as part of this process.

Status: **Three audit recommendations related to the agreement with the Pharmacy Society of Yukon have not been implemented.**

Way Forward: Management has reported that a final options paper on an agreement with the Pharmacy Society of Yukon will be presented to government for consideration in the 2011-12 fiscal year.

RECOMMENDATION# 5

- *The department should develop a plan to integrate all drugs purchased through various programs into the check and control processes of the new Pharmacare (adjudication) system.*

The drug adjudication system, which incorporates various checks and controls over the drug purchasing process, is currently used solely by the Pharmacare and Extended Health Benefits program. The response to the recommendation was that the Department would review feasibility and cost implications of this recommendation.

Overall progress is dependent on cross-departmental communication and commitment and although there are indications that the potential for expanding the use of an adjudication system is being considered for the Continuing Care Branch, it was not known how the approach is being managed with the Social Services Branch or horizontally across the departmental level.

Status: **Audit recommendation has not been implemented.**

Way Forward: This remains a departmental issue and not one that the Pharmacare Office solely can resolve. Management has committed to continue to explore the work required and costs associated with the recommendation in the 2011/12 fiscal year.

RECOMMENDATION# 6

- *The Pharmacare Office should prepare a strategy for the Pharmacare System that is aligned with the overall information needs of the department. The current system is driving inefficiencies as it is not retaining certain information that is important for internal control.*

At the time of reporting, management conveyed that the recommendation relating to the review of information needs was addressed by the implementation of the drug adjudication system. We observed that the drug adjudication system is a key information system facilitating the application of rules, identification of errors and identification of usage information for payments on drug expenditures charged to the program. This system was intended to be on-line between the government and pharmacies. However, it has not been fully rolled-out due to funding pressures. The drug adjudication system is currently utilized by the pharmacare function as part of their internal check on pharmacy claims prior to payment processing and for producing statistical information on drug use.

In general, the branch believes the drug adjudication system has been developed as far as they can go for the program at this stage based on the level of the information technology support and resources that are currently available to them.

Although the original recommendation is implemented, it is noted that the potential development of the drug information system and electronic health record, which are not under the direct control of the Pharmacare and Extended Health Benefits program could have a major impact. The team will therefore continue to face a number of significant challenges in this area in the near future regarding developing information systems. It is recommended that an information needs strategy be kept as a continuing item in the operational plan.

Status: Audit recommendation has been implemented.

RECOMMENDATION# 7

- *The Pharmacare Office should develop procedures to track client drug prescriptions so that a break in the recording of a chronic care drug can be flagged to check on the client's residency. The present system prohibits prescriptions of drugs for a usage period greater than three months.*

The audit report highlighted the difficulties of policing the temporary absence rules which are intended to ensure that eligibility criteria are successfully applied. Branch management have provided a number of examples of mechanisms used to flag residency issues and have given assurances that staff are currently doing all they can within their authority to curtail abuse of residency rules. We are satisfied that the measures we observed are reasonable under the circumstances.

Although the original recommendation is considered implemented, it remains that abuse of residency rules continues to be a clear frustration to branch management and the extent of this abuse is still not quantified.

Status: Audit recommendation has been implemented.

The following audit recommendations were not reviewed in our phase two follow-up audit as they were considered low risk and fully implemented based on information provided to us following the phase I audit follow-up review.

RECOMMENDATION# 8

- *The Department should review what it classifies as a medical record versus an administrative or financial record, and take corrective action to rectify how these records are to be treated and processed internally by various branches. Particular attention should be given to the records maintained by the Pharmacare Office which are considered financial and “medical confidential” in nature, as these should fall under the control of the Finance, Systems and Administration Branch.*

Management has reported that signing authorities were reviewed at the time of report release and changed so that authorities were segregated and appropriate.

Status: According to management, the audit recommendation has been addressed.

RECOMMENDATION# 9

- *The Finance, Systems and Administrative Branch should ensure it carries out appropriate account verification procedures on all claims processed by the Pharmacare office before giving certification under Section 30 of the Financial Administration Act. The account verification procedures should adhere to the requirements as specified in the Financial Administration Manual (FAM), Section 5.7.*

Management has reported that, at the time of report issue, the department was committed to ensuring the account verification procedures would be followed as specified in FAM, Section 5.7.

Status: According to management, the audit recommendation has been addressed.

RECOMMENDATION# 10

- *The Department should ensure that all invoices submitted to the Pharmacare Office are processed within 30 days as required by policy.*

Management has reported that, at the time of report issue, the department committed to ensuring that all invoices submitted to the Pharmacare Office would be processed within 30 days.

Status: **According to management, the audit recommendation has been addressed.**

RECOMMENDATION 12

- *Pharmacare Office should conduct a records management review of all their records and documents. Records that are no longer current should be archived, purged or destroyed in compliance with government policy. Current medical records that are maintained should be properly stored in filing cabinets and secured by lockable bars.*

Adequate progress has been demonstrated in discharging this recommendation. Evidence of review by the departmental records management team has been provided and security measures implemented.

Status: **According to management, the audit recommendation has been addressed.**