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**REPORT ON THE AUDIT OF  
THE PHARMACARE AND  
EXTENDED HEALTH BENEFITS  
PROGRAMS**

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# EXECUTIVE SUMMARY

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The Health Services Branch (*Branch*) of the Department of Health and Social Services (the *Department*) administers the Yukon's publicly funded Pharmacare and Extended Health Benefits (*P&EHB*) program. The Branch coordinates department policies and activities associated with the provision of prescription drugs and extended health benefits to eligible Yukon seniors. The Branch's mission is "to foster an environment in which communities, families and individuals can achieve and maintain optimal health, through health promotion, active living, disease prevention, and provision of health services."

According to a recent federal, provincial and territorial study on drug prices, spending on drugs over the past decade in Canada has grown at twice the rate as on health care. This rise in spending reflects a number of factors including the importance of prescription drugs in treating and preventing illness, emergence of new and expensive drugs and the growing pressure for public plans to cover these. In Yukon, Pharmacare expenditures for 2004-05 totalled \$2.9 million, while expenditures for extended health benefits totalled \$1.7 million. Over the past four years the net costs of these two program activities has increased by over 67%.

The main purpose of our audit was to assess the adequacy of the management, acquisition, use, eligibility and claiming processes for the Pharmacare and Extended Benefits Program. The audit covered the period from April 1, 2003 to March 31, 2005 and was conducted in January and February 2006. Our audit was performed in accordance with the Yukon Government's policy on internal audit and the Standards for the Professional Practice of Internal Audit.

During our audit we looked for sound program management, proper control of disbursements and good knowledge of program performance. We found a highly dedicated group of staff sometimes constrained by limited resources and having to work with antiquated systems and processes. In this report we describe where the program, financial and system control deficiencies have occurred, and offer a number of recommendations designed to help the department improve its administration of the P&EHB program.

### ***Results in Brief***

- The agreement between the Yukon government and the Pharmacy Society of Yukon which provides for insured health services to eligible beneficiaries and the manner in which these services would be charged to the government expired in May 1997, and has never been renewed. As a result the pharmacies and the department continue to operate as if an agreement was in place. Under the terms of this agreement, the Yukon government is paying a higher mark-up rate on the cost of drugs than other jurisdictions.
- We were pleased to see that the Pharmacare Office has comprehensive procedures in place to assess drugs for selection and then listing on the Yukon Drug Programs Formulary. However, more collaboration with pharmacists and prescribing physicians is needed in order to implement new strategies which will improve the cost effective delivery of the program.
- While the procedures used for verifying claims within the Pharmacare Office were found to be sufficient, those applied by the Finance, Systems and Administration Branch (*Finance*) for verifying and approving payment were found to be inappropriate during the period of audit coverage.
- The Pharmacare system that handles claims from pharmacies and clients, and reports on the performance of the P&EHB program had several known deficiencies during the period of audit coverage. The software that runs the Pharmacare system is inadequate for today's reporting or control needs. Some actions were implemented in 2006 to phase in a new Pharmacare system.
- The P&EHB program lacks the necessary information for reporting to internal and external users on the results of its operations and financial performance. This issue could be corrected through the implementation of the new Pharmacare System identified above.
- Pharmacies, which are the recipients of much of the Yukon spending on the drug programs are not audited to recover funds or to deter potential abuse.

# INTRODUCTION

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## BACKGROUND

The Yukon's P&EHB program 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 the report, Drug Expenditures in Canada 1985-2004, the Canadian Institute for Health Information (CIHI) found that in 2002, the Yukon Territory paid 66.2% of prescription drug expenditures in Yukon. This was the second highest coverage in Canada. Because the Yukon government faces significant challenges in managing drug and other related health care costs, this area was determined to be an ideal candidate for an internal audit.

The Department of Health and Social Services manages the Yukon's publicly funded Pharmacare prescription drug and extended health benefits programs. These legislated programs are designed solely for Yukon Seniors. Similar programs exist in other provincial and territorial jurisdictions across Canada. However, some of these jurisdictions take a broader and more universal approach to Pharmacare, as they include other recipient types. In Yukon, other types of recipients are in separate programs, for example, the Children's Drug and Optical Program and the Chronic Disease and Disability programs.

The net cost of the P&EHB program has increased from \$2.1 million in 2000-1 to \$3.5 million in 2004-5, which reflects a 67% increase over four years. The number of active subscribers, however, has grown by 23% during the same period from 1,345 subscribers in 2000-01 to 1,659 in 2004-05. Pharmacare expenditures for 2004-05 totalled \$2.9 million, while expenditures for extended health benefits including supplies totalled \$1.7 million.

Excluding First Nations, pharmacare services provides coverage of drugs to all Yukoners over 65 years of age and to their spouses who are over 60 years of age whose benefits are not covered by private insurance. All P&EHB clients must use their private insurance first before they can be covered by the program. Pharmacare pays the total cost of the lowest priced generic prescription drug including the dispensing fee and other costs of non-prescription drugs and goods. Extended benefits are offered to the same class of pharmacare registrants who meet the same eligibility criteria. Extended benefits include registrant eligibility for hearing, dental and optical services, wheel chairs, medical supplies, hand rails, beds and other items.

The P&EHB program is administered by the Health Services Branch through the Insured Health and Hearing Services' Pharmacare Office. The program is led by a manager and two staff members.

### **AUDIT OBJECTIVES**

The objective of this audit was to assess the adequacy of the management, acquisition, use, eligibility and claiming processes for the drug and extended health benefits' programs. Specifically, we examined:

1. the adequacy of the procedures to manage the performance of the Pharmacare and Extended Benefits programs;
2. how resources are managed with due regard for cost effectiveness;
3. how the quantity and relevance of drug and extended benefits use is monitored to encourage appropriate and economical practices;
4. the eligibility of insured persons to ensure appropriate collection of premiums and other fees;
5. compliance with the policies and procedures for approving, processing and paying claims, and whether these are adequate and being followed; and
6. whether appropriate reports are generated for management on the performance of the Pharmacare and Extended Benefits program.

### **SCOPE AND APPROACH**

Our examination was conducted in the Branch's Pharmacare Office during January and February of 2006 and covered the period from April 1, 2003 to March 31, 2005. It involved information gathering, interviews with staff responsible for managing and administering the P&EHB program, and the conduct of such tests and other procedures as considered necessary in the circumstances. We also relied on the records and documents necessary to fulfil the audit objectives and established audit criteria. Where appropriate, we examined the processes and systems tied to the two program activities. Some comparative research was conducted to analyze and provide advice on best management practices as they exist in other jurisdictions.

The audit was conducted in accordance with the Yukon Government's policy on Internal Audit Services and Activities and the Standards for the Professional Practice of Internal Audit.

The scope of examination did not examine drugs which are procured and used in acute and long-term care facilities. The audit criteria used to assess the Department's performance against the audit objective set for the audit were

discussed and agreed to with management during the planning of the audit. These criteria are described in Appendix A.

In carrying out our assessment we relied on the following authorities:

- Government's legislation under the Yukon's Healthcare Insurance Plan and other related Acts and Regulations including departmental policies and procedures for administering the Pharmacare and Extended Benefits programs; and
- General Administrative Manual (GAM), Financial Administration Manual (FAM), Management Board minutes and other directives that exist to assess the program's financial management.

## OBSERVATIONS AND RECOMMENDATIONS

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### PROGRAM MANAGEMENT

The function of management is to ensure that organizational resources are used expeditiously (*efficiently*) and on the right activities (*effectively*). We expected the P&EHB program for seniors to have clear objectives, adequate resources, sound plans and performance measures, and regular reporting of results achieved. In addition, we expected this program to be evaluated on a periodic basis.

*“Optimal” pharmaceutical care is inseparable from general health care and the two have to be assessed in relationship to each other. Optimal Pharmacare is not just about program economy and efficiency it has to also be about Pharmacare’s contribution to the overall effectiveness in the delivery of the department’s mandate. Without this linkage to the main health programs, Pharmacare on its own may be considered as having an almost “unsustainable” funding draw on resources if the program costs increase at the rate expected.*

#### ***Planning for Performance***

P&EHB program planning is conducted informally through management meetings and discussions on issues as they arise. We found that staff have knowledge of current trends impacting the program and lots of good ideas – particularly around how processes could develop with the new Pharmacare system. However, we did not find any cohesive strategy, vision or set of objectives for the program that draws all the thinking together into a unified plan with measurable targets.

The idea that programs and operational units should formally document their planned activities is not an essential requirement imposed by the Yukon government. For the most part, programs, functional activities and operations within departments can choose how they plan in whatever

form that this takes. Although the government recently introduced a formal planning process aimed at getting departments to establish high-level corporate objectives and plans, this initiative is relatively new and not currently linked to the budgeting process or reporting on results.

In our view, the P&EHB program needs to establish a results-based approach to planning, monitoring and reporting on performance. Given that pharmacare costs are growing at a substantial rate they should be more closely examined including the comprehensiveness of the program, links with other drug related healthcare programs and the Pharmacare Agreement. Such an approach could lead to the development of annual plans and longer-term strategies on how the program can be delivered more efficiently and cost effectively.



## **Recommendation**

1. 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.

## **Management Comments**

*The department agrees with this recommendation.*

## ***Staff Resources***

In 2004-05 there were three different casual or auxiliary employees working in administrative type positions, which represented around 20% of the payroll and totalled twenty-two months of employment. The use of temporary staff in 2004-05 was high when compared to the number and cost of permanent employees within the Pharmacare Office during the same time period. We noted that there were minor errors made in the year in question such as dates incorrectly entered and late payments.

Given the size of the Pharmacare Office, the existing staff complement does not have the mass resource base that would readily absorb unexpected absences, or increases in work-load. The Pharmacare Office appears to have been faced with unavoidable problems with staff absences during the time period subject to audit. These staffing issues have now been rectified.

## ***Program Evaluations***

The Yukon and the Northwest Territories are the only two jurisdictions across Canada that cover the full cost of drug benefits for seniors. Although other jurisdictions have deductibility and co-payment schemes, which make their programs less attractive than the ones offered in the two Territories, some also provide a broader scope of coverage that includes other recipient classes. In Manitoba, for example, the drug benefit program is universal with a deductibility based on family income. In British Columbia, the lower the income, the more assistance the government provides to cover the costs of prescription drugs.

The Yukon's P&EHB program has never been evaluated to assess program design, delivery and performance. Strategic objectives that question why the program exists and how it continues to serve Yukoners have not been clearly articulated in recent years. Without this direction, it is difficult for Health and Social Services to develop meaningful performance measures with which to define P&EHB's success or failure. In the foreseeable future it might be worthwhile for the department to evaluate the costs, efficiency and effectiveness of the Yukon's P&EHB program and other related drug and benefit supply programs. Such an evaluation would demonstrate program relevance, focus improvement in performance, provide better information for decision-making, and facilitate greater transparency.

## **Recommendation**

2. 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.

### Management Comments

*The department agrees with this recommendation.*

## **DRUG AND EXTENDED BENEFITS SELECTION AND COST**

Minimizing drug costs is necessary to help manage the growth in program cost. When prescription drugs are available from more than one source, it is the policy of the Pharmacare Office to pay the total cost of the lowest priced generic prescription drugs listed in the Yukon Drug Programs Formulary. This Formulary lists medications approved for coverage and those considered for the various programs administered.

On a monthly basis, the Pharmacare Office monitors the costs of drugs listed on the formulary. This process follows what goes on in other jurisdictions and the Health Canada bulletins that are issued. Particular attention is given to the monitoring of high priced drugs.

On the extended benefits side, there is always the question as to how much coverage should be given to certain types of supplies such as wheelchairs and prosthetics. Currently, the program provides for only one prosthetic and does not provide "specialty" prosthetics for sports. Likewise, the program covers the cost of standard wheelchairs. However, where there is a request for an electric wheelchair, the program will pay a portion of the cost for this device. Usually, the Pharmacare Office will try to seek or match what other jurisdictions cover with respect to health-related supplies. They also depend on medical professionals to write up reports as to what is needed.

### ***Umbrella Agreement with Pharmacy Society of Yukon***

In 1995 the Government of Yukon signed a two year agreement with the Pharmacy Society of Yukon (the *Society*). This agreement specifies the terms and conditions by which the Society, through its members, would provide insured health services to eligible beneficiaries and the manner in which these services would be charged to the Yukon government. The agreement with the Pharmacy Society of Yukon expired in May 1997 and has never been renewed. It is our understanding that preliminary discussions took place a number of times in the past between the Yukon Pharmacy Society and the Department. During these discussions it was apparent that the parties had different objectives in entering discussions. As a

result, successive governments chose to remain with the terms of the existing agreement.

### **Recommendation**

3. The Department should make a concerted effort to negotiate a new Pharmacy Agreement with the Pharmacy Society of Yukon.

### Management Comments

*The Department agrees that it would be desirable to formalize arrangements with the Yukon Pharmacy Society. The Department will develop options for the Government's consideration.*

### **Cost of Prescription Drugs**

Minimizing drug costs is necessary to help manage the growth in program costs. According to Section 1 of the Pharmacy Agreement, the maximum cost which can be billed by retail pharmacies for drugs in the Yukon, is summarized as follows:

- *Actual drug cost* – manufacturer's wholesale price as represented by the amounts listed in the formulary, plus the distributor's mark-up to 14%.
- *Up Charge Price* – the pharmacy can mark-up the actual acquisition cost of the drug purchased by 30%.
- *Dispensing fee* – a maximum fee of \$8.75 on all prescriptions or the customary fee charged to customers of the pharmacy who are not covered by Pharmacare.

By definition, actual drug cost means the actual cost of acquisition by the pharmacy including the cost after any trade discounts or rebates to the pharmacy have been made or realized. Most Yukon pharmacies in 1995 may not have had the volume needed to order direct from the manufacturer and had to obtain it directly from the wholesaler. This is why the agreement with the Pharmacy Society of Yukon included an up charge distributor mark-up on the wholesale cost of drugs.

The distributor's mark-up of 14% on top of the manufacturer's wholesale price of drugs has remained unchanged for almost 10 years. The Yukon and Saskatchewan are the only two jurisdictions that identify a distributor wholesale mark-up. As many jurisdictions use Actual Acquisition Cost as the base for their base charge-up, they may in fact be covering the distributors cost, because this would be included in the Actual Acquisition Cost.

Another cost factor is the charge-up cost of 30% on the acquisition cost of drugs. This charge may also be viewed as excessive when applied to all prescription drugs, as there are no charge-up limits set for high priced drugs. For example, the 30% charge-up rate would be applied regardless if the cost of the prescription drug

is \$10 or \$200. In most other provinces, where charge-up costs are applied, the charge-up rate is not fixed at 30%, but is scaled back to the cost of the drug – the higher the cost of the drug, the lower the charge-up.

Pharmacies are paid a dispensing (*professional*) fee for each prescription dispensed. The fees charged by the pharmacies in the Yukon appear to be lower than those of other jurisdictions, although the fee structure cannot easily be compared to those other jurisdictions, because each applies a different non-standard formula.

Section 6 of the Agreement goes on to say that the amount payable by the Department to the pharmacy for the purchase of drugs under the Chronic Disease and Disability Regulations and Pharmacare Regulations shall be the lesser of:

- the usual and customary fee charged to customers of the pharmacy who are not eligible under the Regulations; or
- the actual “acquisition cost” as defined under Section 1.

In other words, pharmacies cannot charge government more than can be charged to members of the public. This means that those suppliers that offer prescriptions at a lower cost due to lower mark-ups and lower professional fees cannot charge the government higher mark-ups and professional fees than their customers would pay.

Presented below are two tables that highlight the Yukon’s reimbursement costs for prescription drugs and the fees charged by pharmacies, as compared to other jurisdictions in Canada:

**Table 1 Reimbursement Costs for Prescription Drugs (2005)**

<i>Province/Territory</i>	<i>Indirect Source Costs</i>
Alberta	AAC + AIA which varies according to acquisition cost of drugs
British Columbia	AAC + 7% mark-up
Manitoba	AAC
New Brunswick	AAC
Newfoundland	Formulary cost + wholesale mark-up of up to 15%
Nova Scotia	AAC
Ontario	ODB + 10% mark-up
Prince Edward Island	MAC + applicable mark-up of up to 7.5%
Quebec	GSP + mark-up of up to 9%
Saskatchewan	AAC + 8.5% wholesale mark-up + pharmacy mark-up of up to 30%
Northwest Territories	Base-price + 30% mark-up
Yukon	AAC + 14% wholesale mark-up + pharmacy mark-up of 30%

  

<b>AAC</b> - Actual acquisition cost	<b>AIA</b> - Additional inventory cost
<b>LAC</b> - Lowest cost alternative	<b>MAC</b> - Maximum allowable cost
<b>ODB</b> - Ontario drug benefit	<b>GSP</b> - Guaranteed selling price

**Table 2 Professional Dispensing Fees (2005)**

<i>Province/Territory</i>	<i>Professional Fees</i>
Alberta	Drugs \$0.00-\$74.99=\$9.90; \$75.00-\$149.99=\$15.00; over \$150.00=\$20.18
British Columbia	Max.\$8.60 for regular prescriptions
Manitoba	No cap. Max. \$6.95 for Social Allowances Health Services
New Brunswick	Graduated dispensing fee, e. g., \$0.00-\$99.00=\$8.40; \$200-\$499.99=\$16.00
Newfoundland	Max. \$6.50 for social services. Seniors pay for the fees.
Nova Scotia	Max. \$9.83 until March 31/05. \$14.74 where ingredient costs exceed \$135.00
Ontario	Retail=\$6.54; Hospital pharmacies=\$3.03;\$4.28-\$5.10 for physicians
Prince Edward Island	Fee determined by pharmacist. Max. \$7.00 for children in care.
Quebec	\$7.80 per prescription; \$7.20 after 32,000 prescriptions
Saskatchewan	Drugs \$0.00-\$6.30=30%; \$6.31-\$15.80=15%;\$15.81-\$200=10%; over \$200=\$20
Northwest Territories	No restrictions on fees.
Yukon	Max.\$8.75 for regular prescriptions

**Source:** Guidebook on Government Prescription Drug Reimbursement Plans and Related Programs, Canadian Association for Pharmacy Distribution Management, March 2005.

### **Recommendation**

4. 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.

### Management Comments

*Consideration will be given to this recommendation in the options developed in response to Recommendation 3.*

### ***Drugs Purchased through Other Programs***

Copper Ridge Place and Macaulay Lodge are both continuing care facilities. The drug costs for Macaulay Lodge clients are paid by Pharmacare. The drug costs for clients at Copper Ridge Place are paid by Continuing Care. Continuing Care has a tendered drug supply contract with a pharmacy that includes drug mark-up caps. This contract does not have the same pricing formulas as those of Pharmacare.

It is our understanding that the Macaulay Lodge drug supply costs were to be transferred to the Continuing Care budget when the clients transferred to the Thomson Centre. As the transfer never took place it means that this group of long term clients still has drug costs within the Pharmacare budget.

The Copper Ridge Place contract and the method of invoice price verification were not examined. This contract is now coming to a close and a contract for the subsequent three year period will shortly be going out to tender.

It is understood that the Social Assistance program also pays for drug prescriptions and its method of invoice price verification was not examined. Eventually it is anticipated that these drug supply arrangements will flow through the control and check procedures of the new Pharmacare system. This would be a later phase of the new computer system project. We have not analyzed the dollar value of prescriptions that went through Macaulay Lodge, Copper Ridge Place or Social Assistance.

### **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 system.

### Management Comments

*The Department will review the feasibility and costs of this recommendation within the context of the differing legislation, policies and objectives governing each of the programs, and the possible human resource implications.*

## **DRUG AND EXTENDED BENEFITS AND USE**

Drug use is related to the prescribing practices of physicians, which are, from a medical perspective outside of our audit scope. The Pharmacare Office does monitor the use of high cost drugs and charges by the pharmacies and routinely follows-up unusual drug utilization patterns. Our review focused on monitoring for compliance with policy and for unusual results that the department could follow-up. Particular attention was paid to the Pharmacare information system.

### ***Drug and Supply Usage***

The claims processing databases of many Pharmacare systems across Canada offer a wealth of information that can provide valuable insights into health trends of clients, the success of specific program efforts, and, to some extent, the benefits of drug benefits provided to clients. As a minimum, the organizations that run these systems, can conduct routine systematic analysis of their databases, both to evaluate the effectiveness of their programs and to improve the health outcomes of their clients.

The Pharmacare Office is presently working on developing a new Pharmacare system that will in the future keep track of an individual's prescription and supply usage. As it stands, the current Pharmacare system is data rich, but information poor. It has several noteworthy deficiencies that make the management of the Pharmacare and Extended Benefits programs all the more difficult. For example, the current system:

- Does not check and confirm which clients have primary third party insurance. The Pharmacare program should only be covering the top up as it is the insurer of last-resort. Knowing third party insurance information has the potential to save money. It is our understanding that this feature has been added to the new system;
- Is unable to report which clients are on palliative care. The new system should flag those clients on palliative care for a certain period of time. This type of information may be beneficial to managers who are doing analyses or projections of future costs;
- Does not report on equipment usage for clients. Pharmacare buys some types of equipment for clients and the Pharmacare Office has no easy way to retrieve a list of all equipment that is still in the possession of clients. When the client no longer requires the equipment, the equipment should be returned to the home care pool, where suitable for re-use.

- Does not enable Yukon Health professional groups to have access to an “*All People – All Drugs*” database – as seen elsewhere in Canada. Without access to complete client drug information the department is unable to monitor patterns of inappropriate drug use; nor is such information communicated to healthcare professionals.
- Is not linked to the government’s accounts payable system. Financial information from the Pharmacare system has to be manually keyed into the financial system, thus leaving room for keying and data entry errors to occur.

### **Recommendation**

6. The Pharmacare Office should prepare a strategy for the Pharmacare system that it 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. The technology supporting the system is outdated and unable to readily produce all the information required for appropriate monitoring and reporting on performance.

In developing the strategy for the new Pharmacare system management should consider elements of a good Pharmacare system by ensuring that it:

- a. *Produces exception reports* - an exception report would point out items such as individual’s drug usage that is over the maximum expected usage and prescriptions over a certain dollar value. We have been advised that the new system will produce such reports;
- b. *Indicates if a client has third party insurance* - the system should then ensure that this other insurance is claimed prior to any Pharmacare claim and that the proportions are reasonable;
- c. *Tracks equipment and supplies that are purchased for clients;*
- d. *Tracks all the clients that are on palliative care;*
- e. *Includes procedures that are properly documented and updated on a regular basis* - this is especially important when the system is expected to change over the next while and there is risk of staff turnover; and.
- f. *Has direct upload capabilities into the government’s accounts payable system.*

### **Management Comments**

*Many of the recommendations have been implemented with the installation of the new Pharmacare system.*



## **ELIGIBILITY OF INSURED PERSONS AND PAYMENTS**

Once a person reaches the age of 65 and has a Yukon Healthcare Insurance Plan number, he or she then becomes eligible for benefits under the Pharmacare and Extended Benefits programs. The program is designed so that clients do not pay; so there are no mean tests performed on drug payments made on a client's behalf. There are no tiers within the system and there are no limits as to how much will be paid on behalf of a single client. There appears to be no upper limit in regard to payments.

### ***Client Records***

While the Pharmacare Office maintains some personal medical information on drug usage, it does not maintain a permanent file or hard copy record of individual client files. Such records could include personal address information, drug and extended benefits history and other information that could be useful for program planning and performance reporting.

### ***Client Absences from Yukon***

The P&EHB program is unable to track client absences away from the Yukon, although it is trying to deal with this problem. Eligibility for Yukon Pharmacare and Extended Benefits ceases after an absence of longer than 183 days. The Pharmacare Office has to depend on the honesty of the client and in many cases will not know that someone has left the territory until such time that another province or territory notifies them that a client is now registered with them. The Department has been considering creating an "Investigator" position whose main duty would be to look for any residency rules abuse across the whole Yukon Health Care Insurance Plan registration system. The creation of this position is still in process.

## **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 currently prohibits prescriptions of drugs for a usage period greater than three months.

### **Management Response**

*Coverage is currently restricted to a three month supply of drugs at any one time. This reduces the potential for covering drugs when persons are out of territory for extended periods. The Department will review the feasibility and cost effectiveness of introducing this recommendation, which if implemented would introduce a further measure to ensure coverage is not provided to persons who are out of territory for extended periods.*

## **CLAIMS SUBMITTED BY PHARMACIES**

The claims submitted by pharmacies for the cost of prescription drugs and their dispensing fees presently follow the pricing and mark-up charges allowed under the 1995 Yukon Pharmacy Agreement, which expired in 1997.

### ***Scope of Our Work***

Our audit of claims under the Pharmacare and Extended Benefit Services entailed a review of 33 payments made by the Pharmacare Office: 23 invoices submitted by pharmacies; six client reimbursement claims; and four palliative claims.

### ***System for Processing Pharmacare Direct Client Reimbursements***

When invoices for direct client reimbursements are reviewed and approved by the Pharmacare Office they are stamped “medical confidential”. Cheque requisitions are then prepared, given spending authorization under Section 29 of the Financial Administration Act (FAA) and sent to the Finance, Administration and Systems Branch (*Finance*) for payment processing and approval under Section 30 of the FAA. After Finance has processed the cheque requisitions they are returned to the Pharmacare Office where they are batched along with the invoices.

In our review of claims, we found the procedures used by the Pharmacare Office for certifying claims under Section 29 of the FAA were done correctly. Apart from one transaction, all claims processed for Section 29 certification were properly authorized. However, the procedures used for processing claims for Section 30 certification through Finance were found to be inadequate. Finance did not receive any of the invoices or supporting documents needed to validate the accuracy and completeness of the information shown on the cheques requisitions. In the absence of such information, Finance did not perform any account verification procedures to justify their approval of transactions under Section 30 other than to verify Section 29 authorizations as given on the cheques requisitions.

There are several control weaknesses in the way the claims process works, but three really stand out. First, the Pharmacare Office and the department treat invoices and cheque requisitions as if they were “medical confidential” records, which is questionable. An invoice and cheque requisition should be treated and handled as a financial record. Second, Finance is responsible for the account verification process as required under Section 5.7 of the Financial Administration Manual. It should therefore be intimately involved in establishing and exercising procedures that govern this process. Third, Finance should review and maintain control over the original invoices and cheque requisitions which are submitted to the Pharmacare Office. Invoices serve as a document that supports the cheque requisitions which Finance approves for payment. These records should be managed and controlled by Finance for accounting, reporting and audit purposes.

### **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 Response

*Delegation of signing authorities rests with the Deputy Minister. In response to this recommendation, signing authorities within the Insured Health Services Branch were segregated with one person holding delegated Section 30 signing authority. This permits the Department to maintain confidentiality, while ensuring that the requirements of the Financial Administration Act are met.*

### **Recommendation**

9. The Finance, Systems and Administration 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 FAA. The account verification procedures should adhere to the requirements as specified in FAM Section 5.7.

### Management Response

*The Department will ensure that account verification procedures follow the requirements specified in FAM Section 5.7./*

### **30 Day Settlements**

The Finance, Administration and Systems Branch was not always able to make the 30 day payment period on claims processed by the pharmacies and other clients through the Pharmacare Office. This was the case in 9 of 23 prescription drug payment transactions that we examined. On the benefits side of the P&EHB program, the results were inclusive in 6 of 10 payment transactions due to the lack of date information that would enable an assessment of the 30 day settlement rule.

Staff shortages experienced in the Pharmacare Office in 2004-05 may have been the cause of this problem. However, because Finance does not receive invoices for verification purposes, it has no means of ensuring payments are processed within 30 days. The Financial Administration Manual is very specific that all invoices must be paid within 30 days. When payment dates are missed Finance is required to pay interest on old invoices.

### **Recommendation**

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

#### Management Response

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

### ***Audit of Pharmacies***

Pharmacies across the Yukon are required to keep all prescriptions, accounts, documents and records relating to items provided by them pursuant to the Yukon regulations and Federal Guidelines. The Pharmacare Office has the authority to audit those pharmacy accounts, documents and records on a periodic basis to ensure that pharmacies are in compliance with various government drug program agreements and ensure drugs are supported by prescriptions on file. Although the Pharmacare Office has had this right to audit for many years it has never exercised it. The audit of pharmacies is a critical part of the control for the claims system. In most other jurisdictions on-site pharmacy audits are conducted at least once a year. Efficiency in these other jurisdictions is often improved by analyzing the claims processed focusing on higher volume pharmacies and high value drugs. It also serves to determine whether the Yukon government is benefiting from any trade discounts taken by the pharmacies on the bulk purchasing of drugs.

### **Recommendation**

11. 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.

#### Management Response

*Regular audits will require additional resources. The Department will seek approval for the additional resources to implement this recommendation.*

### ***Physical Security of Confidential Information***

The Pharmacare Office maintains a significant amount of administrative and client medical information in a room which is not totally secure. This information goes as far back as 1997 and includes the batches of invoices and cheque requisitions mentioned above, as well as, medical information that supports some of the administrative records. All of these records are stored in filing cabinets. The storage room has more than one door access with ceiling tiles that can be lifted or moved so as to enable access from another room. Other concerns are the quality of the locks, the number of people who have keys, who has access to the area, how

often the locks are re-keyed and what are the key return procedures when employees leave the Pharmacare Office.

The Pharmacare Office needs to consider the nature of the information that they maintain and how long this information needs to be stored. The financial records which are held by the Pharmacare Office legitimately belong to the Finance, Systems and Administration Branch. For this reason, the Pharmacare Office may want to consider obtaining a physical security audit and a records management review. The current security level is similar to that found in a basic residential house, and is not at the level expected and required by a medical-confidential office.

### **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.

### **Management Comments**

*The Department agrees with and will implement this recommendation as resources allow.*

### **REPORTING ON PERFORMANCE**

Reporting on performance is the process of assessing results against expectations and making appropriate changes, if required, in order to realign activities and bring them back on course. From a corporate perspective, performance reporting must deal with program effectiveness that includes the priorities set by the department – doing the right things. In an operational context, performance reporting has more to do with issues of economy and efficiency - doing things right.

### ***Management Reporting***

We found the Pharmacare Office regularly monitors its budget and financial performance, however, it does not formally report on the results of its internal operations where program performance can be measured against standards and targets through a system that holds people accountable. Staff may be performing their work efficiently, but in the absence of any operational reporting there is no way of knowing whether certain activities are aligned with the program's objectives or departmental priorities.

**Recommendation**

13. 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.

Management Comments

*The Department agrees with this recommendation.*

**External Reporting**

External reporting serves to provide Legislators and the public with sufficient information or analysis to enable the reader to draw conclusions on how well the P&EHB program is performing. Our review of the Main Estimates shows that some baseline statistical data is reported on the number of subscribers served under the Pharmacare and other drug related programs. The financial information presented, however, is minimal and does not focus on the essential aspects of program performance. There is no analysis or comparative cost information provided that may explain significant issues, trends or risks on past and expected future performance.

**Recommendation**

14. 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 Comments

*The Department agrees with this recommendation.*