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NO. 2006-0064-130

INDEPENDENT STATE AUDITOR'S
DETERMINATION ON THE
SOLDIERS' HOME IN HOLYOKE'S PROPOSAL
TO PRIVATIZE PHARMACY SERVICES

OFFICIAL AUDIT
REPORT
AUGUST 24, 2006

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INTRODUCTION

Background

Chapter 296 of the Acts of 1993, as amended, the Commonwealth's privatization law, outlines the process that must be followed by agencies and applicable Authorities seeking to contract for a service that is presently performed by state or Authority employees. The law, which became effective December 15, 1993, applies to contracts that have an aggregate value of \$200,000 or more.

Pursuant to this law, a specific process must be followed to demonstrate and certify to the State Auditor that (a) the agency complied with all provisions of Chapter 7, Section 54, of the Massachusetts General Laws and all other applicable laws, (b) the quality of the services to be provided by the designated bidder is likely to equal or exceed the quality of services that could be provided by regular employees, (c) the total cost to perform the service by contract will be less than the estimated in-house cost, (d) the designated bidder has no adjudicated record of substantial or repeated noncompliance with relevant federal and state statutes, and (e) the proposed privatization contract is in the public interest in that it meets applicable quality and fiscal standards. The State Auditor has 30 business days (with the authority to extend the review an additional 30 days) to approve or reject the agency's certification.

The process that the agency must follow includes preparing a detailed written statement of service, estimating the most cost-efficient method of providing those services with agency employees, selecting a contractor through a competitive bidding process, and comparing the in-house cost and the cost of contract performance. The agency must also ensure that the private bids and private contract, if ultimately awarded, contain certain provisions regarding wages, health insurance, the hiring of qualified agency employees, nondiscrimination, and affirmative action.

The Soldiers' Home in Holyoke (SHH), a 330-bed healthcare facility available to qualified veterans, operates under the Executive Office of Health and Human Services. The mission of SHH is to provide the best healthcare possible, within available resources, to eligible veterans who reside in Massachusetts by providing inpatient services that include acute, long-term, and domiciliary care, as well as outpatient services. The SHH is governed by a seven-member Board of Trustees composed of residents from the four Western Massachusetts counties and appointed by the Governor to oversee management of the organization. SHH is fully accredited by the Joint Commission on

Accreditation of Healthcare Organizations and inspected annually by the United States Department of Veterans Affairs.

SHH is proposing the privatization of its pharmacy, which serves both inpatient and outpatient veterans. The SHH is seeking a vendor to provide services encompassing the complete administration of its pharmacy, including:

- Daily filling of in-house and outpatient prescriptions
- Inventory control, including reconciliation of narcotic counts
- Pharmaceutical consultations with staff and veterans
- Attendance at facility meetings
- Providing drug-interaction reports and informational data on a regular basis
- Prescription-packaging (blister packaging)
- Bar-coding compliant with current in-house structure
- Inventory reconciliation for aid and attendance
- Computerization of pharmacy software for order entry and clinical screening
- Computerization of re-order
- Operational oversight
- Budget reconciliation and oversight

On May 25, 2006, (the OSA review was statutorily extended on July 13, 2006), SHH notified the Office of the State Auditor (OSA) of its intent to award a privatization contract for this activity. As required by law, the notification was accompanied by a certification signed by the Deputy Superintendent of the Soldiers' Home in Holyoke and the Secretary of the Executive Office for Administration and Finance, and by documentation subject to review and determination by the OSA in accordance with state law and applicable guidelines issued by the OSA.

During the performance of our review, SHH made several revisions to its previously submitted documentation. Accordingly, we redirected our review to SHH's additional material as requested by SHH on June 26, 2006.

Audit Scope, Objectives, and Methodology

The Soldiers' Home in Holyoke (SHH) has proposed that (1) the State Office For Pharmacy Services (SOPS), through a Commonwealth of Massachusetts Interdepartmental Service Agreement (ISA), oversee the complete administration of pharmacy services at SHH; (2) McKesson Medication Management LLC (McKesson), under a pharmaceutical services contract with SOPS, would provide the required staff to operate its pharmacy; and (3) SOPS would be responsible for the evaluation and oversight of McKesson employees.

The objectives of this review were to determine whether the SHH complied with Chapter 296 of the Acts of 1993, as amended, the privatization law, including the quality and compliance requirements of the law, and whether the cost of providing pharmacy services to the inpatient and outpatient veterans would be less than the estimated cost for performing these services in-house with SHH employees.

To meet these objectives, we examined the Request for Response (RFR), the response received, the proposed ISA between SHH and SOPS, terms of the pharmaceutical services contract between SOPS and McKesson, and quality and compliance information. We also examined the cost forms and documents, the bulk of which were submitted by the SHH, supporting the privatization proposal, and compared the estimated cost of contract performance with the estimated cost to perform the services in-house with SHH employees. We traced and verified all of the cost elements listed in the cost forms to the supporting documentation and interviewed SHH management officials.

DETERMINATION

Based on our review, we have concluded that the Soldiers' Home in Holyoke (SHH) has complied with Chapter 296 of the Acts of 1993, as amended, in reaching its decision to award a privatization contract to provide pharmacy services at the SHH, a service that has been performed in-house with SHH employees.

The SHH has certified and demonstrated that the quality of services to be provided by the contractor is at least equal to or greater than that which has been provided by the SHH employees, that the designated contractor has no adjudicated record of noncompliance with relevant statutes, and that the cost of having the work performed under contract will be less than the estimated cost of having the work performed in-house with SHH employees. We therefore approve the SHH's certification in each of those required areas.

EXHIBIT A***Soldiers' Home in Holyoke- Privatization of Pharmacy Services******Cost Comparison******Fiscal Year Ending June 30, 2006***

In-House Cost Estimate (Exhibit B)	\$ 1,384,032
Contract Performance Costs (Exhibit C)	<u>1,374,493</u>
Estimated Annual Cost Savings	<u>\$ 9,539</u>

EXHIBIT B***Soldiers' Home in Holyoke- Privatization of Pharmacy Services******In-House Cost Estimate******Fiscal Year Ending June 30, 2006***

	SHH Cost <u>Estimate</u>	Audit <u>Adjustments</u>	SHH Cost Estimate <u>As Adjusted</u>
Personnel Costs	\$ 406,844	-	\$ 406,844
Materials and Supplies Costs	921,246	-	921,246
Other Direct Costs:		-	
Depreciation	50,200	-	50,200
Utilities	1,427	-	1,427
Other Costs	<u>4,315</u>	-	<u>4,315</u>
Total In-House Costs	<u>\$ 1,384,032</u>	-	<u>\$ 1,384,032</u>

EXHIBIT C***Soldiers' Home in Holyoke Privatization of Pharmacy Services******Contract Performance Costs******Fiscal Year Ending June 30, 2006***

	Per <u>SHH</u>	Audit <u>Adjustments</u>	Adjusted Contract Performance <u>Costs</u>
Contract Price	\$ 430,850	-	\$ 430,850
Personnel Costs		3,355 (1)	3,355
Materials and Supplies Costs	921,246	-	921,246
Other Direct Costs:			
Depreciation	13,300	-	13,300
Utilities	1,427	-	1,427
Other Costs	<u>4,315</u>	<u> </u>	<u>4,315</u>
Total Contract Costs	<u>\$ 1,371,138</u>	<u>\$ 3,355</u>	<u>\$ 1,374,493</u>

- (1) The OSA increased the Contract Performance Costs to reflect the Personnel Costs of the computer support and housekeeping staff whose services will continue to be provided by the Soldiers' Home in Holyoke employees.