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STATE AUDITOR'S
REPORT ON CERTAIN ACTIVITIES
OF THE SENIOR PHARMACY PROGRAM

OFFICIAL AUDIT
REPORT

JULY 12, 1999

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During fiscal year 1997, the state Legislature enacted Chapter 118E, Section 16B, of the Massachusetts General Laws, which established a pharmacy assistance pilot program. This statute initially provided up to \$500 per year for each eligible person for certain prescription drugs to be provided to a maximum of 60,000 qualified senior citizens within the Commonwealth. The five-year pilot program, which is commonly referred to as the Senior Pharmacy Program (SPP), is to be funded each year by an increase in the state cigarette tax, subject to appropriation, in an amount not to exceed \$30 million. The Act authorized the state's Division of Medical Assistance (DMA) to establish this program. However, on February 18, 1997, DMA entered into an interdepartmental service agreement with the state's Executive Office of Elder Affairs (EOEA) that delegates the administration of this program to EOEA. Our audit, which covered the period July 1, 1996 through December 31, 1997, assessed the initial implementation and administration of this program by DMA and EOEA to determine whether resources appropriated by Chapter 118E were being used efficiently and effectively and in a manner consistent with the intent of this legislation. Our audit revealed that the SPP is helping to subsidize the cost of prescription drugs to many senior citizens within the Commonwealth. However, we did note several areas where the administration of this program can be improved.

The Massachusetts Legislature is considering two bills proposing changes to the SPP. A Senate bill would substantially increase funding for the program and would increase eligibility by including individuals who are Medicare eligible and whose income does not exceed 200 percent of the federal poverty level, which is an increase from the previous 150 percent of the federal poverty level. This bill would also increase the annual pharmacy assistance amount from \$750 to \$1,500. In addition, the legislation calls for the establishment of a task force to develop a plan for catastrophic drug coverage for Medicare eligible persons with incomes up to 400 percent of the federal poverty level.

The House bill would increase the annual pharmacy assistance amount to \$1,000 and would create a commission to design a premium-based catastrophic prescription plan for all seniors. The House bill would also include in the SPP all senior citizens with income between 150-400 percent of the federal poverty level who spend five percent or more of their income on prescriptions, including prescription insurance plans.

In addition to these two bills, the Governor has proposed a prescription insurance plan that would provide catastrophic (above \$1,500 a year) coverage to seniors for a small premium. Seniors with income below 150 percent of the federal poverty level would pay no premium and get unlimited coverage after a \$750 deductible. Given the fact that, if new legislation is enacted into law, the number of elderly citizens within the Commonwealth who participate in the SPP will likely increase, it is important that the Commonwealth take measures to ensure that the SPP program is properly administered.

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(b) <u>Program Outreach Efforts Were Inadequate:</u> The Legislature specified in the state budget that \$500,000 each year of this five-year program was to be appropriated to the 27 Home Care Corporations (HCC) to perform outreach to the HCC client base of 34,980 individuals as of November 1996 who may be eligible for the SPP. However, our review of the outreach activities performed by these HCCs disclosed that there were no goals or expected outcomes (enrolled seniors) established by EOEA in these outreach contracts. Additionally, there were no feedback mechanisms (e.g., reports on applications submitted or seniors enrolled) required by these contracts; EOEA was unable to accurately report application data by HCC area; DMA-approved applications were not reported until June	7

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<p>1997; and there was no evidence of the evaluation of the performance of any of the 27 HCCs, despite the fact that the outreach efforts were not generating sufficient demand to meet the anticipated program enrollment goal. Furthermore, there was insufficient direction over the outreach effort from EOEA, because the SPP director was not appointed until after the start of the first enrollment period and the first meeting of the SPP liaisons was February 26, 1997, three weeks into the enrollment period. As a result, there is inadequate assurance that the outreach for this program was conducted in the most effective and efficient manner. In fact, due to the significantly lower amount of program applications, per unit costs for processing applications increased by over 500%, whereas per unit outreach costs increased by approximately 100%.</p>	
<p>(c) <u>Program Eligibility Requirements Preclude Certain Individuals Who Are Income Eligible from Participating in the Program</u>: In order to participate in the SPP, seniors had to both meet low-income limits and not be covered by prescription drug insurance. As a result, those seniors who may meet the low-income eligibility requirement of this program but chose to purchase prescription drug insurance were precluded from participating in the program.</p>	8
<p>2. <u>Inadequate Program Management</u>: Sound business practices advocate that an organization employ management practices to ensure that program goals are met in the most economical and efficient manner. However, our review of the administration of this program revealed several questionable management activities. First, EOEA awarded the contract to process program applications to one of its HCCs, West Suburban Elder Services Inc., (WSES). Despite the fact that WSES only processed 16,500 applications during the first year, it submitted a proposal for processing 120,000 applications in the second year of the program and was awarded by EOEA a contract for \$585,342, which exceeded WSES's first year actual contract spending of \$297,379. Second, the responsibility of administering the SPP was delegated to a supervisor at EOEA who was appointed to the new position of Program Director, despite the fact that this individual had no prior experience administering a program of this size. As a result, this individual was unable to implement measures that could have improved the effectiveness and efficiency of the program. Third, EOEA's monitoring of program expenditures was inadequate. Specifically, based on our review of WSES's fiscal year 1997 activities, we determined that (a) purchase voucher billings and financial reports were not adequately reviewed or reconciled, resulting in overcharges to EOEA of \$21,785; (b) state-owned capital equipment costing \$52,445 was noncompetitively procured by WSES without formal approval from EOEA; and (c) WSES erroneously charged \$8,324 in depreciation for this equipment against its state contracts. Because such administrative deficiencies exist within this program, there is inadequate assurance that all expenses being incurred under this program are necessary and proper.</p>	15
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INTRODUCTION

Background

During fiscal year 1997, the state Legislature enacted Chapter 118E, Section 16B, of the Massachusetts General Laws, which established a pharmacy assistance pilot program. Initially, this statute provided up to \$500¹ per year for each eligible person for certain prescription drugs to a maximum of 60,000 qualified senior citizens within the Commonwealth. The five-year pilot program, commonly referred to as the Senior Pharmacy Program (SPP), began on July 1, 1997 and is to be funded each year, subject to appropriation, in an amount not to exceed \$30 million from the Children's and Seniors' Health Care Assistance Fund² by the increase in the state cigarette tax. According to the legislation, the enrollment period was to start February 1, 1997. However, because of a gubernatorial veto, the appropriation for the program administrative budget was not passed until February 14, 1997. Chapter 118E defines persons eligible for the SPP as follows:

A resident of the commonwealth for not less than six months prior to application for enrollment in said program, who is sixty-five years or older, not eligible for pharmacy benefits or coverage under this chapter, with no pharmacy benefits or coverage from a Medicare supplemental insurance policy regulated... with no pharmacy benefits or coverage from any other third party payer and whose annual income does not exceed [133% percent in the first year said program is in effect] of the federal poverty level or the applicable income eligibility limits as provided herein.

Chapter 16B also established "covered benefits" as prescription drugs limited to classes of maintenance drugs necessary to prevent or control chronic illnesses. An enrollment fee in an amount not to exceed \$15 shall be paid (deducted from the \$500 pharmacy assistance allotment) by all eligible persons to defray the administrative expenses of said program.

The state's Division of Medical Assistance (DMA) was authorized by this Act to administer the SPP. However, on February 18, 1997, DMA entered into an interdepartmental service agreement (ISA) with

¹ This amount was increased on December 8, 1997 to \$750 per year.

² This fund was established by Chapter 29, Section 2FF, of the Massachusetts General Laws to be used to fund the SPP and other medical and health care benefits as described therein.

the Executive Office of Elder Affairs (EOEA) in the amount of \$1,304,038 that delegated the administration of this program to EOEA.

The budgeted cost of the program for enrolling an estimated 60,000 seniors for fiscal year 1997, as detailed in this ISA, was as follows:

<u>Senior Pharmacy Program</u>		
<u>EOEA Administration Program Budget</u>		
<u>Fiscal Year 1997</u>		
EOEA Program Administration Costs		\$88,696
Central Verification Unit (CVU) Costs		585,342*
Outreach Costs:		
Home Care Corporations (HCC)	\$500,000 **	
Media Consultant	30,000	
Marketing and Materials	<u>100,000</u>	
Total Outreach		<u>630,000</u>
Total ISA		<u>\$1,304,038</u>

* The CVU contract was awarded to one of EOEA's 27 HCCs³, West Suburban Elder Services, Inc., (WSES) based on the lowest cost and most effective bid at \$393,194.

** The \$500,000 was allocated to each of the 27 HCCs based on an apportioned share each HCC had to the total HCC client base of 34,980 as of November 1996.

In order to establish their eligibility for enrollment in the program, seniors must complete an application that requires them to provide information regarding their age, residence, Medicaid coverage, prescription drug insurance coverage, and annual income. The HCCs' responsibility is to ensure that every eligible senior in their local area receives and completes an application. The applications are then sent to the CVU for verification and processing. The CVU verifies annual income based on documentation (e.g., W-2 Forms, Social Security slips, bank statements) supplied by the senior. The data from the CVU-approved applications are then forwarded to DMA for verification of Medicaid status. Upon approval by DMA, the senior is issued an approval letter and pharmacy card, which notifies the pharmacist that the senior is eligible for the program. Pharmacy claims are administered by DMA,

³ EOEA provides services to senior citizens within the Commonwealth through contract with 27 HCCs. The HCCs were created by EOEA to provide senior citizens with home-based services.

which issues the card, authorizes claim approvals, edits claims against numerous systems checks (e.g., monitoring time intervals for prescription drug refills, tracking entitlement, annual usage), and pays pharmacist claim vouchers.

The enrollment period for SPP was originally February 1 through April 30 of each of the five fiscal years as identified by Chapter 118E. According to the scope of services of the CVU contract, there were to be 120,000 applications received by April 30, 1997, from which 60,000 eligible seniors would be enrolled to start receiving pharmacy entitlements on July 1, 1997. However, as of March 31, 1997, there were only 3,785 applications received at the CVU. As a result of this lower-than-expected enrollment, the state Legislature changed the enrollment period, income eligibility requirement, and type of drugs that are covered under the program on four separate occasions (see Audit Result No. 1). However, none of these changes increased program participation enough to meet the original participation goal of 60,000 eligible seniors. At the end of fiscal year 1997, there were 16,500 applications received at the CVU, with an approved enrollment of 8,783. In fiscal year 1998, the enrollment period was changed to open enrollment, and the pharmacy assistance was increased to \$750 per individual. Despite the numerous changes to program eligibility and benefits as of December 31, 1997, DMA had only approved a total of 19,919 applications.

Audit Scope, Objectives, and Methodology

The scope of our audit included an examination of EOEAs' and DMA's fiscal year 1997 and 1998 (through December 31, 1997) activities relative to their administration of the SPP. Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits promulgated by the Comptroller General of the United States and included such audit procedures and tests as we considered necessary under the circumstances to satisfy our objectives. The overall objective of our audit examination was to determine whether DMA's and EOEAs' administration of the SPP met all the objectives of Chapter 118E. Our specific objectives were:

- To meet with EOEA and DMA officials to obtain an understanding of how the SPP is being administered by each of these agencies.
- Perform audit testing at EOEA, DMA, and several HCCs, including West Suburban Elder Services (WSES), in order to assess the effectiveness and efficiency of various administrative and program activities, such as outreach, enrollment, and program monitoring.
- If applicable, make recommendations on how to improve the administration of this program.

To achieve our audit objectives, we held discussions with various EOEA, DMA, and WSES officials and reviewed pertinent laws, regulations, policies and procedures, contractual agreements, and financial records maintained by EOEA, WSES, and DMA relative to its administration of the SPP. The purpose of these discussions was to obtain an understanding of how the SPP was being administered and the level of participation in the program. In addition, we conducted site visits at five HCCs, which were located in Boston (two), Worcester, Lawrence, and Watertown. We also visited an advertising agency used by EOEA to provide various outreach services. During our site visits, we held discussions with officials from each HCC and reviewed each agency's policies and procedures. We also reviewed the financial and programmatic records maintained by each HCC and the CVU relative to the administration and provision of SPP services. The purpose of our site visits was to ensure that the HCCs and the CVU had established administrative procedures for carrying out their outreach and applications processing functions and responsibilities as required by Chapter 118E.

AUDIT RESULTS

1. SPP Funding Not Fully Utilized in the Most Effective or Efficient Manner

The Senior Pharmacy Program (SPP) was established to provide up to \$30 million in annual funding to help eligible seniors pay for prescription medicine. However, we found that, due to various operational deficiencies within this program, funding was not fully or effectively utilized. Specifically, the SPP (1) did not performing an accurate assessment of demand for program services, (2) performed inadequate program outreach activities, and (3) utilized program eligibility requirements that precluded individuals who were income-eligible from participating in the program. In fact, of the \$30 million appropriated annually for this program, only approximately \$9 million will be expended as of June 30, 1998. Our specific concerns are detailed in sections (a) through (c).

(a) Formal Determination of Needs Study Was Not Performed Prior to Implementation of the SPP: Chapter 118E, Section 16B, of the Massachusetts General Laws established a funding level of \$30 million per year for the SPP based on an anticipated program enrollment of up to 60,000 eligible seniors, at a maximum entitlement amount of \$500 per individual. However, the Division of Medical Assistance (DMA) and the Executive Office of Elder Affairs (EOEA) program managers stated that this 60,000 participation figure was based on the 1990 state census and not on a current demographic assessment. In order to ensure that it had current SPP information, the state Legislature required DMA to provide it with periodic program data. Specifically, Chapter 118E, Section 16B, of the General Laws requires DMA to provide the state Legislature with reports relative to the operation of the SPP. This legislation was amended in 1998 to make the reporting requirement monthly, by stating, in part:

The division [DMA] shall maintain data to allow evaluation of the cost effectiveness of the program and shall submit biannually to the general court a report summarizing beneficiary demographics, utilization, provider dispensing experience, utilization review results and such other information as may be needed to evaluate the costs and benefits of said program.

During our audit, upon requesting copies of the aforementioned reports, the SPP manager for DMA stated that DMA was unaware of the reporting time frame requirements and had not submitted the reports

in the time frame established by this statute. Subsequent to the end of our audit field work, DMA's Internal Control Manager provided us with a copy of the first SPP report published in June 1998, which covered the first eight months of the operation of the program for fiscal year 1998. However, an official at the Legislative Joint Committee on Health Care informed us that the committee had not received a report from DMA despite several requests dating back to May 1998. Because DMA had not fully complied with the requirements of this statute, the state Legislature and other interested parties did not have all the information they needed to adequately assess the operations of the SPP and make informed decisions relative to its operation.

During the initial program enrollment period of February, March, and April 1997, only 7,854 applications were received for processing. Due to the unexpectedly low participation (6.3% of the 60,000 target) according to DMA and EOEAs officials, the state Legislature changed the enrollment priorities from restricting participation in order to contain spending to encouraging participation to spend up to \$30 million. The revised priority caused the program demand (eligible seniors) restrictions to be changed and the program supply (drug coverage) restrictions to be changed on four occasions, as indicated in the table below.

Senior Pharmacy Program
Summary of Program Changes
Fiscal Years 1997 and 1998

<u>Date</u>	<u>Description of Change</u>
February 26, 1997	Enrollment closure extended from April 30, 1997 to May 31, 1997.
June 30, 1997	Enrollment closure extended through August 31, 1997. Income eligibility level increased from 133% of the federal poverty level to 150% of the federal poverty level.
August 29, 1997	Enrollment closure extended through December 31, 1997.
December 8, 1997	Program offers open enrollment (i.e., no termination date on enrollment period). The benefit amount per eligible senior is increased from \$500 to \$750 per person. The "maintenance" drug provision is changed to all drugs.

Despite these changes to encourage participation and to increase the entitlement benefit per person, the estimated total program spending by the end of fiscal year 1998 will be only approximately \$9 million. According to Home Care Corporations (HCC) staff, the numerous program changes implemented in order to increase program participation caused a lot of confusion as to how eligible seniors were to receive program services. Consequently, additional resources had to be expended so that printed notices that were posted at senior centers could be replaced and informational forums regarding program services and eligibility requirements had to be redone.

Although the actual amount of additional expenses that were incurred as a result of these programmatic changes could not be determined, the inefficiencies in the operation of this program were reflected in the fact that total program administration costs equaled \$928,313 for fiscal years 1997 (83% of the budgeted volume), whereas program applications actually received were only 13% of the budgeted volume. In our opinion, a better assessment of the demand for program services would have alleviated the need for amending the participation requirements in this program and provided for a more effective use of program resources.

(b) **Program Outreach Efforts Were Inadequate**: As previously noted, DMA's agreement with EOEA for fiscal year 1997 provided \$630,000 for program outreach. Of this amount, EOEA's portion of this funding was \$130,000, which was budgeted as follows:

EOEA
SPP Program Outreach Budget
Fiscal Year 1997

Training	\$ 30,000
Public Relations Consulting	10,000
Media and Advertising	10,000
Outreach Materials	30,000
Application Forms and Instructions	20,000
EDP Support	<u>30,000</u>
Total	<u>\$130,000</u>

The 27 HCCs were given the remaining \$500,000 of funding and a wide amount of discretion by EOEA as to how to use these funds for outreach.

During our reviews at the HCCs, we found that the methods of SPP program outreach employed by each HCC differed widely. For instance, the Worcester HCC used its entire funding to contract with a media consultant who ran advertising via newsprint, radio, and cable TV, whereas the Central Boston Elder Services used its entire funding of \$27,101 for wages to an SPP liaison.

Although \$609,024 of the \$630,000 appropriated for program outreach was actually expended, program applications (16,500) and enrollment (8,783) figures were significantly lower than the anticipated program applications (120,000) and enrollment (60,000) figures for the beginning of fiscal year 1998. Our review of HCC program outreach efforts revealed several deficiencies that contributed to this failure. First, there were no goals or expected outcomes (enrolled seniors per HCC) established by EOEA in the HCC contracts. As a result, there was no incentive for HCCs to aggressively market this program. Second, there was no feedback mechanisms (e.g., formal reports on applications submitted or seniors enrolled) required by these contracts; and therefore, EOEA had no means for accurately assessing program participation levels or the effectiveness of HCC outreach efforts in a timely manner. In fact, DMA-approved applications were not reported to HCCs until June 1997. Third, there was insufficient direction over SPP outreach efforts from EOEA. Specifically, the SPP Program Director was not appointed until after the start of the first enrollment period, and the first meeting of the SPP liaisons was held on February 26, 1997, three weeks into the enrollment period.

Without measurable outputs, feedback mechanisms, and clear direction from EOEA to its HCCs, there was no way to determine whether the HCCs utilized the most effective and efficient outreach process. In fact, due to the significantly lower amount of program applications processed, the per-unit costs for processing applications increased by over 500%, whereas per-unit outreach costs increased by approximately 100%.

(c) **Program Eligibility Requirements Preclude Certain Individuals Who Are Income Eligible from Participating in the Program:** There are two major requirements to be eligible for SPP benefits, being income-eligible (i.e., income not to exceed 150% of the federal poverty level) and having no

insurance that provides pharmacy benefits. In regard to the low program participation in the SPP, a number of HCC staff stated that a significant number of seniors in their service areas are precluded from participating in the program because, although they may be income eligible, they already have insurance that covers some of the costs of their prescription medicines.

In fact, during our audit we found that one HCC, Elder Home Care Services of Worcester, had performed its own analysis as to why SPP applications and enrollments were so low in its service area. This analysis involved interviewing 634 seniors in the Worcester area who were 65 or older, not on Medicaid, and classified as income-eligible for the SPP. Of the 634 seniors in this survey, 553 or 87% were covered by prescription drug insurance under various insurance policies and were therefore not eligible to receive SPP benefits.

Regarding these matters, DMA and EOEA officials stated the SPP was thrust upon them without proper planning time that a \$30 million project would require. EOEA stated that it relied upon its HCCs to do the detailed outreach effort for fiscal year 1997. However, in fiscal year 1998, EOEA stated that it had obtained the services of a media consulting firm with experience in outreach efforts similar to the requirements of the SPP, including advising both EOEA and the HCCs on how to improve their outreach techniques. Also, DMA stated that, since its organization is the insurer of last resort (for health benefits) it therefore could not provide benefits to individuals who had prescription medicine insurance coverage.

Recommendation: In order to ensure that SPP resources are used in the most effective and efficient manner, EOEA and DMA should ensure compliance with the reporting requirements of Chapter 118E, Section 16B. Furthermore, EOEA and DMA should:

- a. Conduct a formal determination of needs assessment for program services and provide the results of this assessment to the Legislative Joint Committee on Health Care to be used to establish appropriate funding and program benefit levels. As a result, any subsequent changes in program benefits or eligibility criteria in order to meet target program participation would be minimized. The results of this assessment should be updated periodically to ensure the efficient and effective operation of this program.
- b. Develop and implement a more effective program outreach system by taking measures that include: establishing outcome/performance standards for outreach contracts, establishing and utilizing

feedback mechanisms to assess the effectiveness of outreach systems, and introducing better methods of outreach to those HCCs needing help in achieving program goals.

- c. Consider expanding program eligibility requirements to include, to some degree, all income-eligible seniors.

Auditee's Response: In response, EOEA and DMA officials provided the following comments:

As the auditors noted, Chapter 118E, Section 16B, which was enacted into law in July, 1996, included the SPP as a five-year pilot program which would document the actual needs of elders regarding prescription drug coverage. The designation of the SPP as a pilot program suggests that initial implementation was intended as a determination of need process in itself. The fact that there was no formal determination of need study before the SPP was implemented is a legislative issue...

Elder Affairs and the Division were mandated to implement the program, not study the need for it. Because administrative funding to support implementation was not approved until February 14, 1997, after the open enrollment period established by the authorizing legislation had begun, Elder Affairs and the Division had to take immediate steps to publicize the program and finalize the application and eligibility verification processes. A formal determination of need study by Elder Affairs and the Division at that point before beginning implementation would have been viewed, rightly, as an abdication of the implementation responsibility assigned by the Legislature, and would have delayed elders' receipt of pharmacy benefits by at least several months....

The SPP management communicated regularly with the Legislature and interested parties principally through three methods as follows

First, the Senior Pharmacy Advisory Panel was established with representatives from numerous community and statewide organizations, ASAPs [HCCs], and members of Legislative Committee on Health Care. The committee has met quarterly since September 1997. Key program performance measures were discussed and led to the legislative changes to the program regarding benefit limits, drug coverage and reporting changes through November 1997....

Second, in the November 26, 1997 legislation, the Division was officially required to submit monthly SPP reports to Administration and Finance and to the Senate and House Ways and Means Committees. These reports did require programming and quality assurance to ensure accurate reporting. On June 1, 1998, the first reports were submitted to the legislature. These reports included all months going back to the inception of the program and were shared with the auditors at the time of the audit without any exception....

The Division of Elder Affairs did not set the targeted enrollment at 60,000. The auditors and others computed the enrollment number of 60,000 based on the calculation of available funding divided by a maximum benefit of \$500 per member. The funding level of \$30 million was not based on anticipated program enrollment of 60,000. The \$30 million cap was a legislated budget funding cap not a goal. There is no enrollment cap in the legislation and the agencies were not required to determine participation level....

A study of the Health Insurance Status of Massachusetts Residents conducted in 1998 by the Division of Health Care Policy and Finance included a segment on seniors and the Senior Pharmacy Program.

The Division and Elder Affairs assisted in this study. The study, released in October 1998, projected the current number of elders potentially eligible for the program at 48,000.

In addition, no public programs enroll 100% of potential enrollees for a variety of reasons, including individual choice. Studies of Federal programs such as SSI and Food Stamps have found that as few as 50% of the poor participate in federal assistance programs targeted toward the poor. We want to maximize coverage in the SPP, but it is important to emphasize that every incremental increase in the participation level is progressively more difficult to achieve...

By July 1, 1997, the program distributed approximately 245,000 applications). Applications received and approved by the Central Verification Unit were as follows:

<u>Date</u>	<u>Received</u>	<u>Approved</u>
July 1, 1997	13,528	10,960
December 1997	22,828	19,256
June 1998	28,738	24,934

Based on program performance, it is clear that most applicants did understand the eligibility requirement as indicated by the high approval rate (87%). In addition the SPP has at least a 52% market penetration in the first year, which compares favorably with longer established programs such as food stamps and SSI as cited above.

It is important that the auditors acknowledged the impact of the legislative changes in the program on outreach efforts and administrative costs. These changes should also be viewed in the context of the Legislature's creation of the SPP as a pilot program. The legislative changes can be considered an appropriate response to problems identified early in the SPP's implementation, and in large part were a reflection of the significant interaction and communication between legislative committees and the implementing agencies (Elder Affairs and the Division) as the program progressed....

Elder Affairs did have an accurate means to measure HCC performance... and there is evidence of ASAP [HCC] performance evaluation as shown in... monthly meeting reports.

In addition, this is misleading about the direction of program outreach efforts in the early stages of the program and subsequently. The outreach contracts with the Home Care Corporations specifically stated how the \$500,000 would be distributed and used. Each ASAP was to develop the following community based marketing activities which were measures that they were held to:

- Local public Information campaign (details in the contract)
- Application Assistance
- SPP Liaison
- SPP Monthly Reports

The ASAP's responsibilities were outlined in a "Scope of Service" contract document. Based upon the initial experience between February and June 1997, enrollment targets were established for each HCC beginning in July 1997.... Statewide SPP information was provided to the ASAPs from the outset of the program. In FY 98 and FY 99, ASAP specific information is being provided to all ASAPs [HCCs].

There was more than sufficient management data to identify operating activity either from the ASAPs, the CVU, Elder Affairs and the Division. This information was shared with all interested parties. In addition, July 1997 was the first active month of available benefits and continuous documentation of enrollment....

Finally, the auditors' use of cost "increases" as measures of efficiency are inappropriate and misleading. The "increases" the auditors cite are over initial estimates based on one program design and made before implementation, using a maximum range of enrollment potential. By increasing the number of expected applications and enrollment, the auditors establish an artificially low cost per application processing. In implementing a program of this nature, there are fixed and variable costs. The auditor's assessment does not recognize the actual enrollment volume or time frame.

The actual potential was substantially different and entailed numerous program changes, as the draft report has already noted. It is invalid and inappropriate to conclude that the differences between these initial unit cost estimated and auditors computed costs indicate anything but program changes and implementation issues, such as the extended enrollment period and the high volume of applications where elders required assistance in completing the application process....

Elder Affairs and the Division were mandated to implement the SPP as set out in the legislation. The intent of the legislation was to provide prescription drug coverage to citizens that did not otherwise have prescription drug coverage. Chapter 118E and 16B clearly state that SPP benefits are only provided to elders with no prescription drug coverage.

Reply: Although we concur that the SPP was established as a pilot program by the state Legislature, we disagree that the Legislature intended, as DMA and EOEA states in its response, that the implementation of this program was "intended as a determination of need process in itself." The fact that the SPP was established as a pilot program does not mitigate DMA's and EOEA's responsibility to ensure the proper administration of program services. Such a determination would have facilitated better utilization of program resources. Further, conducting a needs assessment would not have been an abdication of DMA's and EOEA's responsibility but rather a prudent administrative decision to ensure that the program resources were effectively and efficiently utilized. Although the Legislature is responsible for establishing this program, it is the responsibility of the implementing organization to manage this program and report back to the Legislature in a timely manner as to any changes or improvements needed to make the program more effective.

Regarding DMA's and EOEA's communication with the state Legislature, as noted on our report, the Senior Pharmacy Advisory Panel did not begin to meet until September 1997, (eight months after

implementation of the program). Chapter 118E initially required DMA to report to the state Legislature on a biannual basis. In November 1997, the reporting changed from biannual to a monthly basis. However, DMA did not submit any reports with the monthly reporting requirement of the November 26, 1997 legislation revision until June 1998. While we do not doubt that information relative to the SPP may have been provided to the state Legislature, there is inadequate assurance that members of the Legislature had all information they needed to make informed decisions about the program because DMA did not submit the required reports in the manner prescribed by this statute.

We acknowledge that the \$30 million in available SPP program funding was a legislatively established program budget. However, contrary to DMA's and EOE's response, the SPP target enrollment figure of 60,000 was not calculated by the auditors but instead was intrinsically established by EOE. Specifically, the Interagency Service Agreement (ISA) that was prepared by DMA and agreed to by EOE on February 18, 1997 states that the SPP shall provide up to a \$500 per-member pharmacy benefit each fiscal year for a maximum of 60,000 qualified individuals. Further, EOE's contract with the Central Verification Unit (CVU), required the CVU to handle 120,000 applications from which 60,000 applicants would be declared eligible. Clearly, in both of these documents EOE had established a target program participation level.

As DMA and EOE state in their response, shortly after the program began, estimates of the eligible population were developed by the Gerontology Institute at UMass-Boston. The comments from this study, as published in "An Evaluation of Health Care Programs for Low Income Uninsured and Underinsured Massachusetts Residents" in a report to the Senate Committee on Ways and Means, House Committee on Ways and Means, and Joint Committee on Health Care dated March 2, 1998 stated, in part

The estimates were difficult to develop since the extent to which individuals purchase private supplementary insurance policies is unknown. As a result, the estimates provided ranged from 15,000 to 43,000 to 60,000. Since these estimates did not clearly identify how many Massachusetts residents were actually eligible for the SPP, program administrators and policy makers did not give credence to the figures. Some interviewees suggested that the target population enrollment size is 45,000.

Without complete and accurate information regarding the target population for eligibility to the program, an adequate assessment of needs cannot be determined. Further, effective revisions to the program cannot be made to ensure that the program is meeting the intent of the legislation.

Further, our report does not question the fact that participants understood eligibility requirements. However, our concern is whether the level of participation was achieved based on the target participation rate, as detailed in EOEAs contract. In their response, EOEAs and DMA state that they achieved a 52% market penetration in the first year. However, because EOEAs and DMA did not effectively determine that the size of their target population, we question how they could determine that the program had 52% market penetration.

We acknowledge that changes in program participation criteria and benefits would impact program outreach efforts and increase administrative costs. The program changes that were made during the period of our review were an appropriate response to try to increase program participation. However, as previously mentioned, had DMA and EOEAs more effectively assessed potential participation in the SPP program, the need for program changes and associated the increases in administrative expenses would have been minimized. The legislative changes made to this program indicate that all involved parties were aware of the lower than anticipated participation levels. However, the number of changes and the fact that the CVU and HCC outreach contracts were not modified despite lower-than-expected program participation levels indicate potential weaknesses in the implementation and administration of this program.

Contrary to what DMA and EOEAs state in their response, there were no accurate means to measure SPP program outcomes versus program goals by HCCs in the first year of the program. As noted in our report, the HCC reporting requirements did not include feedback for program outcomes such as applications submitted by HCC area or seniors enrolled by HCC area. Success of the program cannot be adequately measured if program outcomes are not established at the outset. Also, in fiscal year 1997, EOEAs experienced zip code, address, and DMA system problems, which precluded EOEAs from

accurately reporting outcomes by HCC. In regard to program enrollment goals, there were no goals established by HCC in the first year of the program. Enrollment goals were established in the second year of the program and expressed as “97% of the numbers of seniors enrolled in fiscal year 1997.” Without specific HCC goal and outcomes data, there was no basis to determine which HCCs would benefit from a higher apportionment of the \$500,000 outreach funding for fiscal year 1998.

The unit-cost we calculated, which is based on the contractual terms, was correct and fairly presented. The contract specified the number of applications and total funding to process these applications. Except for funding in emergencies, all contracts signed by the Commonwealth obligate the vendor to perform in a cost-effective and efficient manner. The terms of a contract indicate such things as goals, volume assumptions, and total costs. Contrary to what DMA and EOEA state in their response, the inefficiencies in the operation of the program detailed in our report are not misleading. Specifically, total administration costs of the SPP during fiscal year 1997 equaled \$928,313 (83% of the budget amount) whereas program applications received were only 13% of the budgeted volume. These figures were not disputed by either DMA or EOEA in their response.

While we acknowledge that there are fixed and variable cost components associated with the operation of this program, we believe better program management would have more effectively controlled the per-unit cost of processing applications for the SPP. For example, when it was determined that the actual number of SPP applications would fall short of budgeted levels, EOEA could have amended the HCC and the CVU contracts to take into consideration this lower-than-expected program participation level. However, although program participation fell significantly below EOEA’s target figures, EOEA did not amend its current HCC and CVU contracts and it subsequently renewed its CVU contract with the same budgeted program participation figures.

We agree that the legislation was written only for eligible seniors without prescription drug insurance coverage. However, given that the available program resources were significantly underutilized, it may

be considered desirable to extend benefits to low-income elders who may have some prescription coverage in order to more fully utilize the resources available in this program.

2. Inadequate Program Management

Our review of EOEAs administration of the SPP revealed several questionable management practices, including inadequate planning, questionable contract awarding, inappropriate delegation of program responsibilities, and inadequate monitoring of program expenses. As a result, there was inadequate assurance that the SPP was administered in the most effective and efficient manner.

Sound business practices advocate that an organization employ management practices that ensure that program goals are met in the most economical and efficient manner. However, during our audit, we noted several instances where EOEAs may have employed contrary practices in its administration of the SPP, including:

- Although the SPP was established as a five-year pilot program, neither DMA nor EOEAs have developed a five-year plan that provides for the proper administration of this program. Therefore, there is inadequate assurance that program goals and objectives were met in the most economic and efficient manner.
- EOEAs awarded the contract to process program applications to one of its HCCs, West Suburban Elder Services Inc., (WSES). In the first year of the contract, WSES bid \$393,194 in anticipation of processing 120,000 program applications. Despite the fact that WSES only processed 16,500 (13.75%) of the anticipated applications during the first year, it expended \$297,379 or 75.63% of its contracted amount of \$393,194. This resulted in an actual unit processing cost of \$18.02 instead of \$3.27 (\$393,194 divided by 120,000 applications) agreed upon in the contract. Despite this questionable performance, EOEAs did not use a competitive-bidding process to renew the contract with WSES for the second year of the program, and in fact increased its maximum obligation from \$393,194 to \$585,342 with no change in the anticipated amount of applications (120,000) that would be processed. EOEAs could not explain why this contract did not utilize a competitive-bidding process to be renewed with increased funding for the same anticipated volume of applications.
- EOEAs delegated the responsibility for administering the SPP to an individual who was working as a supervisor for long-term health services in EOEAs. The individual was appointed to a newly created position of Program Director with no significant experience in running large programs, and no significant outreach experience. Moreover, because of the small administrative staff at EOEAs, the Program Director did not have adequate guidance or support. The lack of experience was manifested by EOEAs when it failed to establish program enrollment goals for the HCCs to create effective feedback processes to the HCCs, and to plan for future application volumes and operational issues, such as enrollment renewal processing. As a result, this individual was unable to adequately assess program outreach measures or to take measures that may have enhanced program participation.

Further, EOEА did not effectively monitor SPP expenditures. Specifically, our review of SPP expenditures made by five HCCs, and the CVU during fiscal year 1997- - WSES, Boston Central, Elder Services Merrimack, Elder Home Care Services of Worcester, and Senior Home Services of Boston- - disclosed deficiencies. Specifically, EOEА did not adequately review the HCCs and the CVU's invoices or reconcile these invoices to the financial reports, which resulted in misreporting and EOEА overpaying the CVU \$21,785 during fiscal year 1997. For example, we found one invoice submitted by the CVU had a mathematical error of \$16,442, which went undetected by EOEА. EOEА stated that there were no instances in which EOEА rejected any of the \$777,824 in invoices submitted by the 27 HCCs and the CVU.

WSES's outreach contract with EOEА included \$39,902 for the purchase of capital equipment. However, in May 1997, WSES noncompetitively procured \$52,445 in computer equipment using SPP funds without the specific approval of EOEА, 801 CMR 21.08 Contract Funding and Compensation, states:

The Contractor shall only be compensated for performance delivered to and accepted by the Department in accordance with the specific terms and conditions of a properly executed Contract. ... A Department shall be under no legal obligation to compensate a Contractor ... for costs or other commitments which are made outside of the scope of a Contract.

Moreover, because WSES did not competitively bid to procure this computer equipment, it cannot be assured that it got the best products for the lowest possible cost. Finally, because this equipment was purchased with state funds, the Commonwealth should hold title to the equipment. Despite this fact, WSES, on its fiscal year 1997 financial statements, charged \$8,394 in depreciation expenses on this equipment against its state contract, even though it did not own the equipment and was therefore not entitled to reimbursement for this expense. WSES submitted an amended Uniform Financial Report (UFR) for 1997 correcting this error.

Regarding these matters, DMA and EOEА management again stated that the program was initiated without adequate time to properly plan and obtain adequate resources for its operation. The EOEА budget manager stated that the Program Director should review and approve invoices. The Program Director

stated that, as long as the contractor did not exceed the total budget, the invoices were approved. The budget manager also stated that the individual who reviewed and reconciled the invoices to the HCC's UFR was on sick leave during the UFR submission period. However, these administrative deficiencies result in inadequate assurance that the SPP program expenditures were expended in accordance with the terms and conditions of state contracts and in compliance with all state regulations.

Recommendation: In order to effect better management over the SPP program, DMA and EOEA should take the following measures:

- Establish a formal five-year plan to coincide with the Legislature's funding of the SPP. At a minimum, such a plan should include annual volume assumptions by HCC for number of applications and renewals; annual drug claims by individual and total program; annual CVU costs per new application and per renewal; annual administrative costs per new application and per renewal; and annual outreach costs per new application.
- Establish specific performance standards within all SPP contracts and evaluate the performance of all vendors providing outreach and other administrative services within the SPP. These evaluations should be used in the recontracting process for SPP program services. Any vendor who does not meet the specified performance standards should be precluded from submitting a bid.
- Develop and implement more effective program monitoring and evaluation procedures such as sharing the invoice review responsibility with the EOEA finance department. The EOEA finance department should also consider backup staffing for important functions such as the reconciliation of UFRs.

Auditee's Response: In response, EOEA and DMA officials provided the following comments:

The first year contract was for a partial year, not for the full year. The budget was \$393,000 and actual spending on the contract was approximately \$297,379. The second year was a full year contract and included additional services such as implementing legislative changes, open enrollment and redeterminations of all members as required by legislation. The second year was an extension contract. The reference to the processing of 120,000 applications is an outside maximum limit, not a goal.

Elder Affairs issued the RFR on January 9, 1997 and secured a contract with West Suburban Elder Service for CVU functions. The contract was in place on February 17, 1997 with four options to renew for one year. Numerous site visits and contract compliance activities were carried out during the first two months of the contract. The contract was renewed based on the following reasons.

- Enrollment did not close on April 30, 1997 as originally projected.
- The contractor was carrying out the required responsibilities and responded to frequent changes in the SPP eligibility criteria to our satisfaction.

- Changing CVU contractors so early in the program would not have guaranteed lower costs or improved performance, and would have been unnecessarily disruptive, with inevitable start-up and transition problems and costs.
- The contractor successfully produced the major product defined for the CVU, the electronic list of enrollees for the Division to use in issuing benefit cards.
- If the CVU contract were not to be renewed for fiscal year 1998, EOEА would have to have issued an RFR in May for a new contractor to be in place by July 1.
- The decision to re-procure the contract would have to have been made before the close of the open enrollment period and before the CVU's major product was due, and therefore before anything approaching a comprehensive evaluation of the contractor's performance for the initial enrollment period could have been made. Such a decision may have been justified if the contractor clearly had not been meeting its obligations, but it was clear to us that the contractor was performing well under difficult circumstances....

The agencies strongly support the SPP Program Director and appreciate her diligent efforts in bringing this valuable benefit to elders in Massachusetts.

The SPP Director reports to a senior-level Director who in turn reports to the Secretary of Elder Affairs. The Director of MIS, professional consultants, media contractors, ASAP Liaisons and the Division of Medical Assistance also support the SPP Director.

The background and qualifications of the SPP Director were determined to have met the requirements of the job description. This determination was based upon her education and extensive experience with management of statewide elder programs. In addition, this person receives direction and support as outlined in the organizational chart...

The auditors cited an overbilling of \$21,785 by West Suburban Elder Service in its February invoice for the Central Verification Unit (CVU). In fact this invoice did contain an arithmetic error which resulted in an overbilling of \$16,442. However, West Suburban has documented that its April invoice was reduced by this amount from actual expenses incurred in April, adjusting for the overbilling in February. This correction occurred during the contract period...

The auditors cited the purchase of computer equipment under the CVU contract. The CVU contractor did obtain three quotes for the required equipment before making the purchase...

WSES did not charge \$8,324 in depreciation for the equipment in question. In fact, West Suburban's original fiscal year 1997 UFR clearly identified the depreciation as a State Non-Reimbursable Expense; it was not billed or otherwise charged as an expense against the CVU contract.

Reply: The first year CVU contract scope of services stated that the CVU would process 120,000 applications from which 60,000 eligibility notices and 60,000 rejection notices would be processed within the contract period February 1997 to June 30, 1997. The CVU did not meet these requirements because of low senior participation. However, EOEА did not renegotiate the terms of the contract in fiscal year

1997 despite this under-performance. During the subsequent year, the contract was renewed with the same scope of services to the same CVU vendor as in the first year. Additionally, the contract renewal for fiscal year 1998 and the contract amendment to increase the contract funding from \$393,194 to \$585,342 did not mention additional services were to be provided under this contract. Given the fact that program participation was clearly going to be less than budgeted in this contract and according to the contract no additional services were going to be required, it seemed unreasonable as well as a questionable management decision to significantly increase rather than decrease the funding for this contract.

We agree that competitively procuring a contractor for the CVU vendor may not have guaranteed a lower cost. However, good business practices advocate that competitive procurement procedures better ensure the best product at the lowest possible cost. Cost savings realized from utilizing competitive procurement procedures would offset any start-up or transition costs that may have incurred by awarding this contract to another vendor. Without competitive procurement, there is inadequate assurance that the SPP is being administered in the most effective and economical manner. We agree that the CVU contracts provided necessary program services. However, as detailed throughout this report, SPP participation levels were significantly lower than budgeted amounts.

The terms of the CVU contract clearly state that the vendor should quote bid costs based on receiving 120,000 applications. It is up to the contractor (EOEA) to renegotiate the contract terms when a major assumption (i.e., volume) within in contract has changed. Since neither the CVU nor EOEA attempted to renegotiate contract terms despite significantly lower program participation levels, EOEA may not have managed this contract in the most effective and efficient manner.

The management of \$30 million in annual funding serving needy elder citizens in a program such as SPP would require an individual with senior program management experience. This individual should have the skills and knowledge to negotiate realistic program goals, establish performance criteria, and develop a process to achieve their goals. A review of the SPP Director's resume indicated no prior

experience in managing large projects of this type. In fiscal years 1997 and 1998, during our audit period the SPP position reported to a director level position that was not at its current level; but this position was upgraded subsequent to our audit field work. There was no job posting for the position of SPP Director, nor was there any evidence that EOEA reviewed candidates qualification prior to appointing an individual to this position. Although we do not question that the current SPP Director has met her job responsibilities to the best of her ability, the management of this program may be more effective if placed at a higher organizational level.

As stated in the response, there was a mathematical error of \$16,442 and an overbilling of \$5,343 due to the misapplication of general and administrative expenses. The overbillings were brought to the attention of EOEA by the auditors. Neither the overbilling nor the correction were detected by EOEA because of its inadequate review and reconciliation process.

WSES was asked specifically to provide any evidence of bids for the purchase of computer equipment. To date, neither the CVU nor EOEA has provided us any documentation that indicates that the CVU obtained competitive prices for this equipment. The \$8,324 error associated with the purchase of this equipment was disclosed on WSES's original fiscal year UFR submitted on time for the November 1997 deadline. Our audit of this UFR disclosed the error, which was brought to the attention of WSES officials. WSES subsequently submitted a revised UFR in January 1998 that changed the expense from a non-reimbursable expense based on our advice. The fact that this error was corrected after it was brought to the attention of WSES management by the audit team does not mitigate that the problem occurred.

APPENDIX
Senior Pharmacy Program
Program Costs and Data for the Two Fiscal Years Ended December 1997

1. Total Program Costs

Administrative Cost:	Fiscal Year 1997 Actual	\$ 928,347
	Fiscal Year 1998 Budget	<u>1,602,342</u>
	Total Administrative Costs	<u>\$2,530,689</u>
Drug Claims:*		<u>\$6,581,054</u>
Total Program Costs as of June 30, 1998		<u>\$9,111,743</u>

2. Applications/Enrollment Data

	<u>Applications</u>	<u>Enrollment</u>
Quarter 1 Ended Actual	24,735	12,452
Quarter 2 Ended Actual	28,226	18,189
Quarter 4 Ended Estimate	42,511	26,212

3. Average Costs per Applications/Enrollments

Administrative Costs:	Budget (120,000 apps/60,000 enroll)	\$21.09	\$41.73
	Estimate (42,511 apps/26,212 enroll)	\$58.90	\$76.50

Average Drug Claim per Enrollee

Drug Claim:	Quarter 1 and 2 Actual (\$2,549,434/13,951 average enrollee)	\$182
	Quarter 3 and 4 Estimate (\$4,031,620/22,502 average enrollee)	\$179
	Total Fiscal Year 1998 (\$6,581,054/18,276 average enrollee)	\$360

* This figure is based on actual figures through the first two quarters of fiscal year 1998. DMA could not provide us with the actual figures for the last two quarters of this fiscal year.