

OFFICE OF THE INSPECTOR GENERAL

STEVE WHITE, INSPECTOR GENERAL

• PROMOTING INTEGRITY •



**SURVEY OF
CALIFORNIA DEPARTMENT OF CORRECTIONS
PHARMACEUTICAL EXPENDITURES**

JULY 2003

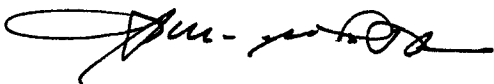
GRAY DAVIS, GOVERNOR



Memorandum

Date: July 24, 2003

To: EDWARD S. ALAMEIDA, JR. Director
Department of Corrections

From: STEVE WHITE 
Inspector General

Subject: SURVEY OF DEPARTMENT OF CORRECTIONS PHARMACEUTICAL EXPENDITURES

The enclosed report presents the results of a survey conducted by the Office of the Inspector General of the Department of Corrections pharmaceutical expenditures. The survey was conducted to evaluate the department's progress in implementing changes recommended by four comprehensive audits and studies of the department's pharmacy program conducted since 2000, including recommendations the department was mandated by the Legislature to implement in 2001 budget language.

The survey revealed that the department has made little progress in implementing the recommendations. Meanwhile, the department's pharmaceutical expenditures have continued to escalate dramatically, increasing 111 percent between 1999-00 and 2002-03 from \$63 million to \$133 million, even though during the same period, the national consumer price index for pharmaceutical drugs increased only 22 percent and the inmate population dropped by two percent.

The Office of the Inspector General found from comparisons with comparable large prison systems that the department could reduce its annual pharmaceutical costs by at least 20 percent — saving upwards of \$ 26 million a year — by implementing effective management controls such as those recommended in the recent audits and studies.

We understand that the Health Care Services Division is now considering arranging for a study by UC Davis, one purpose of which will be to identify potential savings in the pharmacy program. We would point out that the pharmacy program has already been comprehensively studied and the deficiencies clearly identified. Time lost as a result of additional study will simply delay implementation of needed improvements and further squander the opportunity for savings.

If the department decides to proceed with an additional study, we recommend that the study be carried out without delay and that the department promptly pursue interim measures to implement needed changes as they are identified without waiting for the entire study to be completed.

Please call me if you have questions concerning this report.

cc: Robert Presley, Secretary, Youth and Adult Correctional Agency

SW/dj

OFFICE OF THE INSPECTOR GENERAL



**SURVEY OF CALIFORNIA DEPARTMENT OF CORRECTIONS
PHARMACEUTICAL EXPENDITURES**

JULY 2003

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EXECUTIVE SUMMARY

This report presents the results of a survey conducted by the Office of the Inspector General of the pharmaceutical expenditures of the California Department of Corrections. The survey was performed under the oversight responsibility assigned to the Office of the Inspector General under *California Penal Code* Section 6126. The Office of the Inspector General performed the survey to examine pharmaceutical expenditure trends of the Department of Corrections over the past four fiscal years, to analyze the practices contributing to the trends, and to evaluate the department's efforts to implement changes recommended in recent audits and studies.

The survey revealed that despite a two percent decrease in inmate population between fiscal years 1999-00 and 2002-03, the pharmaceutical expenditures of the Department of Corrections increased 111 percent, from \$63 million in 1999-00 to \$133 million in 2002-03. During the same period, the national consumer price index for pharmaceutical drugs increased only 22 percent. The Office of the Inspector General found that the department's pharmaceutical expenditures are also significantly higher than those of two prison systems comparable in size — the U.S. Bureau of Prisons and the Texas state prison system — and have increased at a much faster rate.

Problems in the Department of Corrections pharmacy program contributing to the high pharmaceutical expenditures have been well-documented in four comprehensive audits and studies conducted since January 2000 by the California State Auditor, the California State Senate Advisory Commission on Cost Control in State Government, and by a private consulting firm, FOX Systems, Inc., under a contract with the Department of Corrections. All of the audits and studies identified similar problems in the department's pharmacy program and included specific recommendations to remedy the deficiencies. Particularly important is the need for the department to replace its Pharmacy Prescription Tracking System, a badly outdated 20-year-old information system that lacks the capacity to perform functions needed to control costs and prevent drug waste, fraud, and abuse. Other management controls are also necessary.

In July 2001, the Legislature mandated that the Department of Corrections implement the recommendations contained in the 117-page FOX Systems, Inc. report. But the Office of the Inspector General found that as of July 2003, the department has made only minimal progress in carrying out the implementation.

Comparisons with the correctional systems of the U.S. Bureau of Prisons and the state of Texas indicate that the California Department of Corrections could achieve savings of at least 20 percent in its current pharmaceutical expenditures, for an annual savings of approximately \$26 million, by implementing more effective management controls. A private pharmacy services vendor has estimated that California could actually save even more — between \$51 million and \$77.5 million — by instituting improvements to bring its per-inmate pharmaceutical costs into line with those of other state correctional systems.

The Office of the Inspector General recommends that the Department of Corrections act promptly to implement the recommendations included in recent audits and studies of its pharmacy program and, if the Health Care Services Division appears to be unable to carry out the implementation on its own, that the department consider contracting with a private vendor to institute the needed improvements.

INTRODUCTION

This survey of California Department of Corrections pharmaceutical expenditures was conducted under the oversight authority provided to the Office of the Inspector General in *California Penal Code* Section 6126. The Office of the Inspector General performed the survey to examine pharmaceutical expenditure trends of the Department of Corrections over the past four fiscal years, to analyze the practices contributing to the trends, and to evaluate the department's efforts to implement changes recommended as a result of recent audits and studies. The survey was conducted from April to June 2003.

BACKGROUND

The California Department of Corrections is required to provide health care services, including physician services, dental care, psychiatric care, and pharmaceutical services, to inmates incarcerated in state correctional institutions. Each institution operates its own pharmacy under the direction of the Department of Corrections Health Care Services Division, which is responsible for administering health care services to inmates. Until January 2003, however, when the division hired three pharmacy service managers, no one at the department level was assigned to actively manage the pharmacy program. As a result, pharmacy operations at the institutions are not standardized, and purchasing, dispensing, and administrative processes vary significantly. Each institution also maintains its own independent pharmacy database using the Pharmacy Prescription Tracking System, an information system with limited capabilities that was developed in the early 1980s.

Pharmaceutical expenditures presently constitute approximately 15 percent of the Health Care Services Division budget. In fiscal year 2002-03, the division budget was \$887 million, with pharmaceutical costs expected to account for \$133 million. Overall, Department of Corrections pharmaceutical expenditures amount to nearly 68 percent of the total spent by the State of California for pharmaceutical supplies.

Despite a decrease in inmate population, the department's pharmaceutical expenditures have grown dramatically in recent years and have increased at a higher rate than the cost of pharmaceuticals nationwide. Between fiscal years 1999-00 and 2002-03, the department's pharmaceutical expenditures increased 111 percent, from \$63 million to \$133 million, while inmate population declined 2 percent, from 162,000 to 159,000, and the national consumer price index for prescription drugs increased only 22 percent. Similarly, between fiscal years 1996-97 and 1998-99, pharmaceutical expenditures increased from \$24 million to \$51.1 million — an annual growth rate of 28 percent — while the inmate population grew by about 6 percent and the cost of prescription drugs increased only 12.9 percent. The department's per-inmate pharmaceutical expenditures have also increased — more than quadrupling from \$142 in 1997 to \$642 in 2002.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this survey was to review trends in the pharmaceutical expenditures of the Department of Corrections over the past four fiscal years and to review the practices that contributed to these trends. The survey was also intended to review recommendations made by

outside entities for improving the department's pharmacy operations and to evaluate the department's efforts to implement those recommendations.

In conducting the survey, the Office of the Inspector General carried out the following:

- Analyzed trends in pharmaceutical expenditures by the Department of Corrections from fiscal year 1998-99 through fiscal year 2002-03.
- Reviewed reports of audits and studies performed by the California State Auditor, the Office of the Inspector General, the Senate Advisory Commission on Cost Control in State Government, and FOX Systems, Inc., a private consulting firm.
- Interviewed key members of the Department of Corrections Health Care Services Division regarding the pharmacy operations and the division's progress in implementing recommendations of consultants and the California State Auditor.
- Analyzed expenditure, population, and other data from officials in correctional systems comparable to that of California.

OBSERVATIONS

OBSERVATION 1

The Office of the Inspector General found that the Department of Corrections has failed to implement recommendations from four recent audits and studies at a cost of millions in potential pharmaceutical expenditure savings.

Problems in the Department of Corrections pharmacy program are well documented. Since January 2000, four comprehensive audits and studies have examined the department's pharmacy operations, identified deficiencies contributing to its escalating pharmaceutical expenditures, and suggested remedies.¹ Yet the department has taken almost no action to implement the recommendations. That delay has cost the State millions in potential savings over the past three years.

Recent audits and studies have all identified similar problems. Between January 2000 and July 2002, two audits by the California State Auditor, a study by the Senate Advisory Commission on Cost Control in State Government, and a study performed by the private consulting firm FOX Systems, Inc. under a contract with the Department of Corrections all examined the department's pharmacy program. All of the reviews concluded that a combination of inadequate management and an outdated information technology system were central to the department's spiraling pharmaceutical costs. The four audits and studies identified the following broad problems:

- Increases in the department's pharmaceutical costs have significantly outpaced national trends.
- The pharmaceutical procurement program is not sufficiently competitive;
- The Health Care Services Division does not adequately oversee the pharmacy program;
- The pharmacy information technology system is outdated and inadequate.

In its January 2002 report, the California State Auditor noted that the Health Care Services Division of the Department of Corrections "needs to rein in its increasing expenditures for drugs."

The Health Care Services Division itself, in a recent internal report, noted:

Corrections has serious ongoing issues with controlling its escalating pharmaceutical costs. Its inability to rein in these costs has been the subject of much analysis by independent groups from both the public and private sectors. Though some cost increases are attributable to external forces outside the control of CDC, analyses revealed that internal factors have had the greatest influence.

¹ California State Auditor, *Department of Corrections: Utilizing Managed Care Practices Could Ensure More Cost-Effective and Standardized Health Care*, January 2000; FOX Systems, Inc., *California Department of Corrections, Health Care Services Division, Pharmacy Services: Alternatives for Improvement*, December 20, 2001; California State Auditor, *State of California: Its Containment of Drug Costs and Management of Medications for Adult Inmates Continue to Require Significant Improvements*, January 2002; California Legislature, Senate Advisory Commission on Cost Control in State Government, *Controlling the Cost of California's Prison Pharmacy Operations*, July 2002.

The most critical and frequently cited problems are related to Corrections' obsolete, 20-year-old information technology structure and the grave weaknesses in its legacy pharmacy system.

The pharmacy information technology system cannot support needed functions. The limitations of the 20-year-old Pharmacy Prescription Tracking System, which is used by all of the institution pharmacies, prevent the Health Care Services Division from effectively managing the department's use of pharmaceutical supplies to control costs or even to ensure that prescription practices are appropriate. For example, the system cannot track the medications prescribed by individual physicians, monitor the use of particularly expensive medications, or determine whether medications prescribed are appropriate to the needs of patients. Nor can the system provide the Health Care Services Division with the information it needs to quantify the types and amounts of the medications it uses so that the State can take advantage of its vast purchasing power to secure lower prices.

The FOX report identified several functions critical to controlling costs that the Pharmacy Prescription Tracking System cannot perform. For example, the system cannot produce patient usage profiles, generate reports to manage drug therapy costs, or create prescribing profiles of individual physicians to analyze prescription practices. The system also cannot perform automated checks to prevent the following:

- Negative reactions from patient allergies to a drug or from incompatible medications.
- Filling prescriptions too soon or too late.
- Inmates stockpiling medications.
- Duplicate therapy from a patient taking more than one drug with similar therapeutic benefits.
- Dosages outside acceptable therapeutic ranges.
- Prescribing non-formulary medications without required authorization.

The Pharmacy Prescription Tracking System is also incapable of supporting basic enhancements such as on-line prescribing, automated dispensing, and communication between institution pharmacies and Health Care Services Division headquarters.

Inadequate oversight of pharmacy operations by the Health Care Services Division. Consistent with the findings of these recent audits and studies, the Office of the Inspector General has found significant evidence of poor management controls over pharmacy operations in management review audits of state correctional institutions. In a 2002 management review audit of the Substance Abuse Treatment Facility and State Prison at Corcoran, for example, the Office of the Inspector General found that in fiscal year 2001-02 the institution exceeded its pharmaceutical budget by \$3.6 million — more than 200 percent. The Pharmacy Prescription Tracking System at the institution was so inadequate that in some cases prescriptions continued to be automatically renewed for inmates who had been paroled as much as eight months earlier. The system was unable even to track inmates who transferred from one housing unit at the institution to another, with the result that medications continued to be delivered to the inmate's former housing unit, where they were designated as unclaimed and discarded, while new prescriptions were written for the inmate at the new housing unit. As evidence of these problems, during the audit fieldwork, the Office of the Inspector General saw the institution staff disposing of numerous 30-

gallon bags of medications. The absence of effective controls also invited widespread fraud and theft involving pharmaceutical supplies — illustrated during the audit by the termination of a registry-hired pharmacist and several other employees following charges of pharmaceutical theft. These examples, coupled with the findings of the audits and reviews performed by the other entities referenced in this report, suggest that similar problems are likely to exist in other institution pharmacies managed by the Health Care Services Division.

Audits and studies have included specific recommendations for improvement. The audits and studies of the department’s pharmacy services program conducted in the past three years have included numerous specific recommendations for remedying the deficiencies. In its January 2000 report for example, the California State Auditor recommended that the Health Care Services Division revise its prescription drug formulary of medications approved for use within the correctional system. In January 2000 and in January 2002, the California State Auditor recommended that the Health Care Services Division replace the Pharmacy Prescription Tracking System. In its December 2001 report, FOX Systems made the same recommendation. The FOX report and the two reports by the California State Auditor all cited in addition the need for the Health Care Services Division to improve its ability to analyze and control the types and quantities of drugs prescribed by individual doctors. Pharmacy managers from state prison systems outside California, similarly, told the Office of the Inspector General that the most effective way to lower pharmacy expenses is to improve controls over the types of drugs prescribed, and particularly to “educate” physicians about prescribing medications from the formulary and aggressively enforce compliance.

The 117-page report of the pharmacy services assessment completed by FOX Systems, Inc. in December 2001 contained 121 findings and included a comprehensive list of suggested solutions for improving management controls in the Health Care Services Division over pharmaceutical services. Aimed at both reducing prescription errors and at controlling the department’s escalating pharmaceutical costs, the recommended controls are intended, for example, to reduce theft and waste of medications; to ensure that generic drugs are used in lieu of more expensive brand-name drugs wherever appropriate; to ensure that high-cost patented drugs are used only after alternative drugs are fully considered; and to prevent medication errors such as prescribing incompatible medications or incorrect dosages. The specific recommendations presented in the FOX Systems report included more closely monitoring contracts for purchases of pharmaceutical supplies. The report also suggested that some or all of the pharmacy operation could be contracted out to private entities.

The solutions suggested as a result of the audits and studies fall in the following five broad categories:

1. Create a central pharmacy services organization.
2. Procure and install a new pharmacy information system.
3. Improve communications.
4. Reengineer business processes.
5. Replace decentralized pharmacies with regional pharmacies or a central pharmacy.

The department has not implemented the recommended solutions. In July 2001, the Legislature mandated that the Department of Corrections implement the recommendations contained in the FOX Systems pharmacy services assessment report. In response, in September 2002, the Department of Corrections submitted to the Legislature a plan for implementing the FOX Systems, Inc. recommendations. Yet, the Office of the Inspector General found that although the management of the Health Care Services Division acknowledges the potential savings to be gained in implementing the recommendations, the department has made only minimal progress in carrying out the implementation. The following summarizes the department's actions in each of the broad recommendation areas:

- ***Create a central pharmacy services organization.*** In January 2003 the division hired three pharmacy services managers and is drafting a strategic plan, but has taken no other action to implement this recommendation.
- ***Procure and install a new pharmacy information system.*** As of June 2003, the old Pharmacy Prescription Tracking System is still in use and a replacement system is still in the early proposal stages. The department submitted an \$11 million feasibility study report for a new pharmacy information system to the Department of Finance in October 2002 — nearly three years after the California State Auditor first recommended that the old system be replaced and almost one year after the FOX Systems made a similar recommendation. In the feasibility study report, the Health Care Services Division estimated that it would take 42 months to implement the new pharmacy information system after the funding was approved — an estimate in sharp contrast to that of a vendor who told the Office of the Inspector General it could implement a new pharmacy information system within 12 to 18 months, with the most critical sites being completed within 60 to 120 days. According to the Department of Corrections budget office, the Department of Finance rejected the department's feasibility study proposal without explanation.
- ***Improve communications.*** The division has made limited progress in this area. All but five or six institution pharmacies now have e-mail capability, but absent a modern information technology system, a headquarters management structure for overseeing pharmacy operations and a strategic plan, no discernible benefits have yet resulted.
- ***Reengineer business processes.*** No progress has been made in this area.
- ***Replace decentralized pharmacies with regional pharmacies or a central pharmacy.*** No progress has been made in this area.

Similarly, even though the Bureau of State Audits first recommended in January 2000 that the Health Care Services Division revise its prescription drug formulary, the division did so only in November 2002.

OBSERVATION 2

The Office of the Inspector General estimates that the Department of Corrections could reduce its annual pharmaceutical costs by at least 20 percent — saving upwards of \$26 million a year — by implementing effective management controls such as those recommended in recent audits and studies.

The Office of the Inspector General found that both the total annual pharmaceutical expenditures and the per-inmate pharmaceutical expenditures of the California Department of Corrections are significantly higher than those of two other large prison systems — the U.S. Bureau of Prisons and the Texas state prison system — each of which also serves inmate populations of more than 100,000. Total annual per-inmate pharmaceutical expenditures of the California Department of Corrections have also grown at a much faster rate than those of the U.S. Bureau of Prisons and the Texas state prison system, and have dramatically outpaced the national consumer price index for consumer drugs. A comparison with the other two large prison systems suggests that the California Department of Corrections could reduce its pharmaceutical costs by at least 20 percent— \$26 million a year — if it implemented effective management controls. A large private pharmacy services vendor has estimated that, in fact, California could actually save much more — between \$51 million and \$77.5 million annually — by instituting improvements to bring its per-inmate pharmaceutical costs into line with those of other state correctional systems.

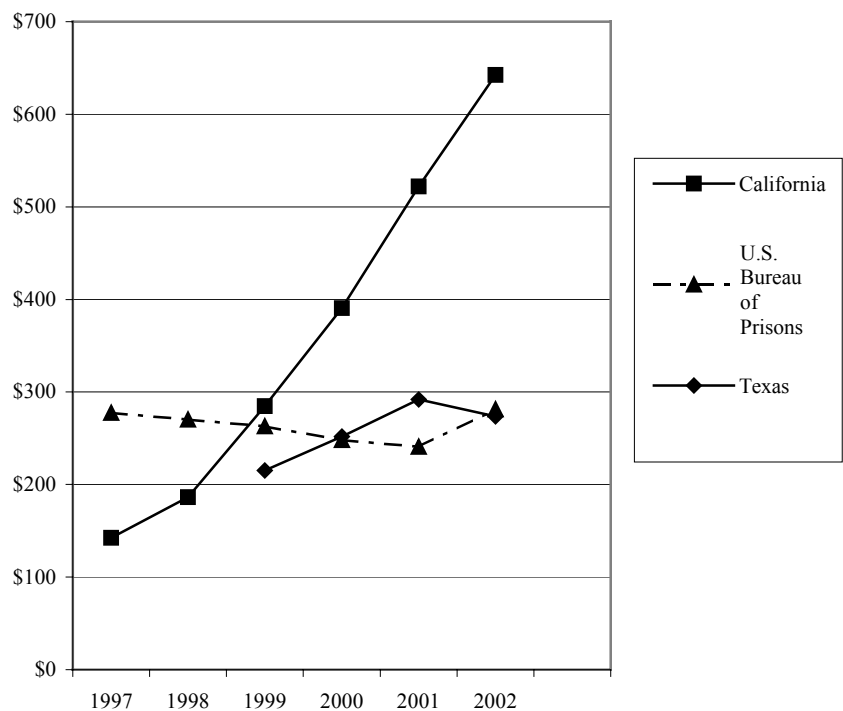
The drug expenditures of the Department of Corrections exceed those of comparable systems.

A comparison between the annual pharmaceutical expenditures of the California Department of Corrections and those of the U.S. Bureau of Prisons and the Texas state prison system show California’s expenditures to be much higher. For the year 2002, for example, the pharmaceutical expenditures of the U.S. Bureau of Prisons, which has an inmate population of 134,755, was \$38.3 million. The total pharmaceutical expenditures for 2002 of the Texas state prison system, which has an inmate population of 146,459, were \$40.1 million. In contrast, the pharmaceutical expenditures for 2002 of the California Department of Corrections, with an inmate population of 159,738, were \$102.7 million.

California’s per-inmate drug costs are higher than those of comparable prison systems.

California’s per-inmate pharmaceutical expenditures also exceed those of the other two large prison systems. The chart at the right compares the annual per-inmate pharmaceutical expenditures of the California Department of Corrections to those of the U.S. Bureau of Prisons and the Texas state prison system for the period 1997 to 2002. As the chart shows, California’s per-inmate pharmaceutical expenditures rose during that period from \$142 in 1997 to \$642 in 2002, while the per-inmate pharmaceutical expenditures of the U.S. Bureau of Prisons and the Texas state prison system remained relatively constant, amounting to approximately \$280 in 2002.

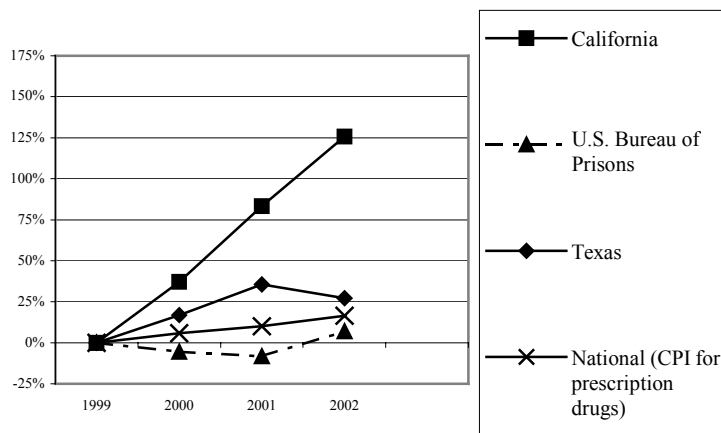
Annual Per-Inmate Pharmaceutical Expenditures, 1997-2002



California's per-inmate drug costs have also risen faster than those of comparable systems.

The following chart illustrates the degree to which annual per-inmate pharmaceutical expenditures of the California Department of Corrections have outpaced the national consumer price index for drugs and the annual per-inmate pharmaceutical expenditures of the Texas Department of Corrections and the U.S. Bureau of Prisons. As the chart shows, the per-inmate pharmaceutical expenditures of the California Department of Corrections increased 125 percent from 1999 and 2002, while those of the U. S. Bureau of Prisons and the Texas state prison system increased 6.9 and 27.1 percent, respectively, and the national consumer price index for prescription drugs increased only 16.5 percent.

**Percentage Increase In Per-Inmate Pharmaceutical Expenditures,
1999-2002**



The Texas and federal prison systems benefit from pricing advantages. The differences in per-inmate pharmaceutical expenditures between California and the other large prison systems are partly attributable to differences in procurement practices and more advantageous pricing arrangements enjoyed by the federal and Texas prison systems. The U. S. Bureau of Prisons is able to procure pharmaceuticals at federal pricing levels, which are lower than any other available prices, while the Texas state prison system obtains pharmaceuticals at a reduced cost through a purchasing association with the University of Texas. Adjusting for the pricing differences, however, reveals that the pricing advantages of the Texas and federal prisons system account for only a portion of California's higher pharmaceutical expenditures and that even if California were allowed the same pricing discounts, California's per-inmate pharmaceutical costs would still be significantly higher.

The following table compares California's per-unit cost of seven frequently prescribed pharmaceutical drugs to the per-unit price paid by the U.S. Bureau of Prisons. The drugs listed in the table represent about 40 percent of the total estimated pharmaceutical expenditures of the California Department of Corrections in fiscal year 2002-03.

COST COMPARISONS FOR FREQUENTLY PRESCRIBED PHARMACEUTICAL DRUGS

DRUG NAME	ESTIMATED COST FISCAL YEAR 2002-2003	CALIFORNIA PER UNIT PRICE ⁽¹⁾	U.S. BUREAU OF PRISONS PER UNIT PRICE ⁽¹⁾	PER UNIT PRICE DIFFERENCE	PERCENTAGE DIFFERENCE
Olanzapine	\$ 17,174,200	\$ 8.03	\$ 6.41	\$ 1.62	20.2%
Quetiapine	\$ 13,642,600	\$ 4.14	\$ 2.59	\$ 1.55	37.4%
Risperidone	\$ 6,689,700	\$ 5.15	\$ 4.04	\$ 1.11	21.6%
Ribavirin	\$ 5,829,100	\$ 8.83	\$ 3.75	\$ 5.08	57.5%
Zidovudine/ Lamivudine	\$ 1,994,700	\$ 9.14	\$ 8.13	\$ 1.01	11.1%
Peginterferon	\$ 1,931,100	\$ 291.00	\$ 143.30	\$ 147.70	50.8%
Ritonavir/ Lopinavir	\$ 1,661,200	\$ 3.13	\$ 2.20	\$.93	29.7%
Weighted Average Price Difference					30.8%

⁽¹⁾: The price comparisons reflect the prices for one specific drug dose (i.e. 25 mg.) and packaging (i.e. 100-pill bottle) combination for each drug. Although in practice drugs would be purchased using several different dose and packaging configurations, a comparison of price for the one dose/packaging configuration illustrates the price differences.

As the chart illustrates, the difference in per-unit cost accounts for about 30.8 percent of the difference in per-inmate expenditures between the California Department of Corrections and the U.S. Bureau of Prisons. Deducting for the per-unit cost difference shows that the annual per-inmate pharmaceutical expenditures of the California Department of Corrections still exceed that of the federal prison system.

A similar comparison can be made between the pharmaceutical expenditures of the California Department of Corrections and those of the Texas prison system. For example, the California Department of Corrections spends about 28 percent of its budget on a specific category of psychiatric drugs called “atypical anti-psychotic medications.” Texas presently spends less than 17 percent of its budget on these drugs. A recent study, however, estimated that in order to improve the prison mental health program to meet guidelines set by the Texas Department of Mental Health, Texas would have to increase its spending on atypical anti-psychotic medications to between 31 and 43 percent of its budget. If Texas were to improve its mental health program to meet those guidelines, its annual per-inmate pharmaceutical expenses, based on its 2002 budget, would increase from \$274 to between \$321 and \$387 per year. But even allowing for that adjustment, California’s annual per-inmate pharmaceutical expenditure of \$642 would still be 40 to 50 percent higher than that of Texas.

California could achieve at least a 20 percent annual savings in pharmaceutical expenditures.

Comparisons with the U.S. Bureau of Prisons and the Texas prison system demonstrate that California’s higher costs result from factors other than per-unit price differences and point to needed improvements in management controls as identified in recent audits and reports. If the Department of Corrections could reduce its costs enough to make up just half the difference between the pharmaceutical expenditures of the Texas and California prison systems after adjusting for the estimated cost of recommended improvements in the Texas prison mental health system, California could reduce its annual pharmaceutical expenditures by at least 20 percent, for a savings of about \$26 million a year. The private correctional pharmacy services

vendor Secure Pharmacy Plus, a subsidiary of the large prison health care company Prison Health Services, estimates that California could achieve even greater savings. According to that vendor, California could reduce its annual pharmaceutical expenditures by between \$51 million and \$77.5 million by implementing improvements in its formulary, contract, and inventory management practices and its labor costs. Those estimates are based on the potential for California to reduce its pharmaceutical expenditures to between the average and 150 percent of the average spent by the vendor's other clients.

The Health Care Services Division may not be capable of implementing needed improvements.

In the past, significant changes in California's inmate health care services have resulted from court orders rather than through the initiative of the Health Care Services Division, indicating that it may be necessary for the Department of Corrections management to actively support and extensively monitor any efforts to improve the pharmacy program. As an alternative, the department could contract with independent vendors to manage the pharmacy program and implement needed improvements. The FOX Systems, Inc. report listed several vendors with extensive experience in pharmacy operations. One of those vendors could completely or partially replace the current Health Care Services Division pharmacy management team. For example, a vendor could be used solely to expedite implementation of the pharmacy information system project. Other vendors are experienced in operating full-service healthcare delivery for large prison systems, including medical, dental, mental health, and pharmacy operations.

RECOMMENDATIONS

The Office of the Inspector General recommends that the Department of Corrections begin immediate implementation of the recommendations made by FOX Systems, Inc. To accomplish the implementation, the department should select one of the following two options:

Option 1

- Direct the Health Care Services Division to begin implementing the FOX Systems, Inc. recommendations.
- Reduce the fiscal year 2003-04 budget of the Health Care Services Division by an amount equal to 20 percent of its annual pharmaceutical expenses.
- Reallocate a sufficient portion of the budgetary reduction to pay for specific information technology improvements.
- Provide appropriate support to the Health Care Services Division to expedite the required technology procurement.
- Ensure that the Health Care Services Division establishes specific goals and objectives to implement the FOX System, Inc. recommendations, and that the Health Care Services Division management adequately monitors the implementation.

Option 2 (preferred)

Contract with a private pharmacy services management firm to implement the FOX System, Inc. recommendations. The contractor would perform the following functions:

- Assume management of the day-to-day operations of the Health Care Services Division pharmacy operations.
- Assume responsibility for promptly implementing the information technology improvements recommended by FOX Systems, Inc.
- Begin the business process reengineering activities recommended by FOX Systems, Inc.

Regardless of the option chosen, the department should also change the pharmacy program structure from a decentralized system with pharmacies in each prison to a system with two or three regional pharmacies or one large central pharmacy, consistent with the model used in other states. That change would provide the following benefits:

- Allow more efficient operations, using automated dispensing machines.
- Reduce inventory shrinkage and spoilage.
- Increase standardization of operations and prescribing practices.
- Reduce the impact of staff turnover and vacancies in hard-to-recruit pharmacist positions located in remote geographic areas.
- Reduce prescription errors.