

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING - FY 06-07 BUDGET REQUEST

Schedule 6												
Change Request for FY 06-07												
Department:	Health Care Policy and Financing				Dept. Approval by:	John Bartholomew			Date:	November 15, 2005		
Priority Number:	BRI - 4				OSPB Approval:				Date:			
Program:	Information Technology Contract Monitoring				Statutory Citation:	26-4-105, C.R.S. (2005)						
Request Title:	Address Audit Recommendation Related to Prescription Drugs within Medicaid Management Information System											
		1	2	3	4	5	6	7	8	9	10	
		Prior-Year		Supplemental	Total	Base	Decision/	November 15	Budget	Total	Change	
		Actual	Appropriation	Request	Revised	Request	Base	Request	Amendment	Revised	from Base	
	Fund	FY 04-05	FY 05-06	FY 05-06	FY 05-06	FY 06-07	FY 06-07	FY 06-07	FY 06-07	FY 06-07	in Out Year	
							Reduction			Request	FY 07-08	
Total of All Line Items	Total	1,955,159,694	2,217,438,594	0	2,217,438,594	2,216,125,856	(1,350,774)	2,214,775,082	0	2,214,775,082	(3,874,744)	
	FTE	0.00	213.40	0.00	213.40	212.60	2.00	214.60	0.00	214.60	2.00	
	GF	946,011,390	1,054,945,865	0	1,054,945,865	1,050,547,552	(769,136)	1,049,778,416	0	1,049,778,416	(2,012,371)	
	GFE	96,464	0	0	0	0	0	0	0	0	0	
	CF	0	76,512	0	76,512	76,512	0	76,512	0	76,512	0	
	CFE	31,181,005	67,118,062	0	67,118,062	86,171,662	0	86,171,662	0	86,171,662	0	
	FF	977,870,835	1,095,298,155	0	1,095,298,155	1,079,330,130	(581,638)	1,078,748,492	0	1,078,748,492	(1,862,373)	
(1) Executive Director's Office, Medicaid Management Information System Contract	Total	21,076,845	23,261,268	0	23,261,268	23,047,082	375,000	23,422,082	0	23,422,082	300,000	
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
	GF	5,187,882	5,662,806	0	5,662,806	5,572,025	93,750	5,665,775	0	5,665,775	75,000	
	GFE	0	0	0	0	0	0	0	0	0	0	
	CF	0	0	0	0	0	0	0	0	0	0	
	CFE	370,212	568,453	0	568,453	611,540	0	611,540	0	611,540	0	
	FF	15,518,751	17,030,009	0	17,030,009	16,863,517	281,250	17,144,767	0	17,144,767	225,000	
(1) Executive Director's Office, Personal Services	Total	12,795,241	14,850,499	0	14,850,499	14,857,066	112,171	14,969,237	0	14,969,237	112,171	
	FTE	0.00	213.40	0.00	213.40	212.60	2.00	214.60	0.00	214.60	2.00	
	GF	5,341,465	6,391,700	0	6,391,700	6,340,297	56,086	6,396,383	0	6,396,383	56,086	
	GFE	96,464	0	0	0	0	0	0	0	0	0	
	CF	0	0	0	0	0	0	0	0	0	0	
	CFE	110,984	466,156	0	466,156	409,453	0	409,453	0	409,453	0	
	FF	7,246,328	7,992,643	0	7,992,643	8,107,316	56,085	8,163,401	0	8,163,401	56,085	
(1) Executive Director's Office, Operating Expenses	Total	812,837	1,105,457	0	1,105,457	1,019,560	7,749	1,027,309	0	1,027,309	1,739	
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
	GF	403,153	528,725	0	528,725	500,470	3,875	504,345	0	504,345	870	
	GFE	0	0	0	0	0	0	0	0	0	0	
	CF	0	0	0	0	0	0	0	0	0	0	
	CFE	729	17,850	0	17,850	4,359	0	4,359	0	4,359	0	
	FF	408,955	558,882	0	558,882	514,731	3,874	518,605	0	518,605	869	
(2) Medical Services Premiums	Total	1,920,474,771	2,178,221,370	0	2,178,221,370	2,177,202,148	(1,845,694)	2,175,356,454	0	2,175,356,454	(4,288,654)	
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
	GF	935,078,890	1,042,362,634	0	1,042,362,634	1,038,134,760	(922,847)	1,037,211,913	0	1,037,211,913	(2,144,327)	
	GFE	0	0	0	0	0	0	0	0	0	0	
	CF	0	76,512	0	76,512	76,512	0	76,512	0	76,512	0	
	CFE	30,699,080	66,065,603	0	66,065,603	85,146,310	0	85,146,310	0	85,146,310	0	
	FF	954,696,801	1,069,716,621	0	1,069,716,621	1,053,844,566	(922,847)	1,052,921,719	0	1,052,921,719	(2,144,327)	
Letter Notation:												
Cash Fund name/number, Federal Fund Grant name:	FF: Title XIX, Title XXI, CFE: Children's Basic Health Plan Trust Fund 11G, Old Age Pension Fund from the Department of Human Services, Colorado Autism Treatment Fund 18A, Nurse Home Visitor Fund from the Department of Public Health and Environment, Breast and Cervical Cancer Prevention and Treatment Fund 15D, and Health Care Expansion Fund 18K											
IT Request:	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	(If yes and request includes more than 500 programming hours, attach IT Project Plan)									
Request Affects Other Departments:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	(If Yes, List Other Departments Here:)									

**CHANGE REQUEST for FY 06-07
EFFICIENCY AND EFFECTIVENESS ANALYSIS**

SELECT ONE (click on box):

- Decision Item
- Base Reduction Item
- Supplemental Request Criterion:
- Budget Request Amendment Criterion:

Priority Number:	BRI - 4
Change Request Title:	Address Audit Recommendation Related to Prescription Drugs within Medicaid Management Information System
Long Bill Line Item(s)	(1) Executive Director’s Office, Medicaid Management Information System Contract; (1) Executive Director’s Office, Personal Services; (1) Executive Director’s Office, Operating Expenses; (2) Medical Services Premiums
State and Federal Statutory Authority:	26-4-105, C.R.S. (2005); United States Code, Title 42, §1396r-8 (6) (b) (1) (A)

Summary of Request (Alternative A): This request is for additional funding for the Medicaid Management Information System Contract line item to implement a Drug Rebate Analysis and Management System in FY 06-07 to be offset by a savings in the drug rebates credited against prescription drug costs in the Medical Services Premiums line item.

Alternative A {Recommended alternative}:

Problem or Opportunity Description: Rising drug costs are a concern in general for the American public, not just for the state Medicaid programs. To avoid letting drug costs increase beyond the State’s resources for paying, Colorado needs to find a way to reduce or offset the rising drug costs.

Since 1991, state Medicaid programs in all states have been able to recover a portion of prescription drug payments by requesting rebates from drug manufacturers. State Medicaid programs reimburse pharmacies for dispensing prescription drugs to Medicaid

recipients and recover a portion of these expenditures by submitting invoices to the drug manufacturers for rebates. The State is responsible for developing an accounting system, subsidiary to the Colorado Financial Reporting System, capable of properly recording and tracking rebate monies paid or owed. Currently Colorado uses a manual system based on receiving a paper report from the drug rebate system in the Medicaid Management Information System. Based on the voluminous paper report, Health Care Policy and Financing manually checks drug payments for correct pricing and prepares a billing for rebates to send to the drug manufacturers on a quarterly basis.

Drug manufacturers can and do dispute rebate amounts claims by states. Disputes delay payment of the rebate until the issue is resolved. Prompt resolution of disputes is critical because the longer the dispute remains outstanding, the more difficult it is to collect the rebate. The Department has had unresolved disputes going back for as long as nine years.

The rebates are not always received in a timely manner. Drug manufacturers calculate and remit interest on aged account receivables. If the rebate is not paid by the manufacturer within 38 days, interest starts accruing on day 39. The Department has no automated or electronic method to assess or to calculate interest. Consequently, all interest is calculated manually. This is problematic because interest rates change daily, necessitating timely updates to existing account information. Due to inefficiencies in the manual process, the Department has no system for verifying the accuracy of the amounts of interest paid by the manufacturers.

In 2004, the State Auditor's Office contracted with the Caley Gordon Group to conduct a performance audit on the Department's Medicaid Prescription Drug Program. The audit work was performed between March 2004 and July 2004. In September 2004, a report was presented to the State Auditor's Office. The Caley Gordon Group contacted other states and found that most states have reassigned or allocated additional staffing resources to improve the rebate process. Unlike many revenues that automatically flow to recipient entities, prescription drug rebates require action on the part of the Department for payment to occur.

The Caley Gordon Group Medicaid Prescription Drug Program Performance Audit of September 2004, page 23 recommends: “The Department of Health Care Policy and Financing should maximize drug rebate collections through the Drug Rebate Program by:

- a) Improving the drug rebate accounting system to increase the collection rate and expedite recovery of rebate program revenue...
- b) Tracking rebate amounts invoiced, disputed, and collected to establish benchmarks and evaluate trends.
- c) Evaluating staffing/workload and assigning staff resources to compute interest on unpaid balances, properly track pricing and rebate per unit changes, research disputed rebates, and resolve all outstanding disputes with manufacturers in a timely manner.
- d) Investigating and implementing system edits which will prevent payment claims that could lead to rebates disputes...
- e) Using the dispute resolution services of the Centers for Medicare and Medicaid Services when appropriate.

The Department agreed to evaluate staffing levels and to examine system processes to determine the most cost-effective means to improve the drug rebate program. The examination was to include exploration of automated processes used in other states. The Department has complied with the audit recommendation by creating new metrics. Furthermore, the Department believes that the tracking process will continue to evolve, change, and improve, especially upon implementation of a fully automated drug rebate system. The Department is tracking rebate disputes to determine patterns of problems that could be eliminated via a system edit. The Department has also implemented a process to resolve disputes with manufacturers including contacting drug manufacturers via a special mailing with phone follow up, and also by attending a dispute resolution meeting moderated by the Centers for Medicare and Medicaid Services.

General Description of Alternative:

This request is for \$491,988 (offset by \$1,845,694 savings for higher drug rebates) to add an automated prescription drug rebate analysis and reporting system to the Medicaid Management Information System currently operated by the fiscal agent. The Medicaid Management Information System currently includes a drug rebate subsystem. The functionality of the current subsystem does not include the automated accounting that the auditors recommended. A new rebate subsystem, called Drug Rebate Analysis and Management System (DRAMS), would streamline the drug rebate process by reducing labor and expediting rebate collection. In addition, it would also:

- produce accurate invoices to send to the drug manufacturers
- reduce the likelihood of disputes for rebated amounts
- facilitate rapid reconciliation of payments for both current and prior quarter invoices
- increase cash flow to the Department by expediting rebate billings to the manufacturers
- calculate interest due from drug manufacturers if rebates are late
- improve reporting capacities including drill down on individual invoices and drug manufacturers
- produce Accounts Receivable reports and detailed claims reports for each specified rebate quarter
- provide a mechanized audit trail
- be implemented in five months or less and become active by November 30, 2006

The DRAMS subsystem would improve the drug rebate accounting system, track rebate amounts invoiced, disputed, and collected to establish benchmarks, compute interest on unpaid balances, and properly track pricing and rebate per unit charges. These functions address three of the five audit recommendations mentioned above. Another recommendation for staffing resources is also addressed in this request. The fifth recommendation of using the dispute resolution services of the Centers for Medicare and Medicaid Services (that the Department plans to do, when appropriate) is a policy issue that is outside the scope of system mechanization.

In order to improve the upfront accuracy of drug claims processing so DRAMS will not have to deal with pricing errors and other drug claims processing errors, the Department would add two FTEs to monitor production results of the claims processing in the Medicaid Management Information System. Current staff within the Department, and within the Medicaid Management Information System oversight work group in particular, already have heavy workloads and cannot assume any additional job functions without jeopardizing the job functions already performed. Due to insufficient resources, minimal time and effort are currently devoted to monitoring the outcomes of drug claims processing, and the Department is aware that lack of sufficient monitoring may often result in overpayment of drug claims and limited effort to collect drug rebates.

The first position would monitor and research improvements to the Prescription Drug Card System. The position would be a business analyst (General Professional IV classification) with an expertise in pharmacy claims processing and would be responsible for assuring the correct processing of pharmacy claims. Monitoring of the system accuracy would be done through a variety of means, including developing and using key management reports as well as analysis through the main decision support system for the Medicaid Management Information System. Oversight of the installation and enhancement of the Drug Rebate Analysis and Management System would also be the responsibility of this position. Because this position would work closely with the Department's policy makers and would enforce the Department's policies with the fiscal agent, this position needs to reside in the Department's internal staff.

A second position (General Professional IV classification) to monitor and research improvements to the Claims Processing Assessment System (CPAS) is also needed. CPAS currently exists within the Medicaid Management Information System, but due to a shortage of personnel resources, it has seldom been used to analyze drug claims and potential drug rebates for the past three fiscal years. When used properly, the CPAS reviews are comprehensive studies of claims that are paid or denied within the Medicaid Management Information System. The studies include assuring that client, provider, reference, pricing, and other policy edits are applied correctly. This position would also review the operational processes for pharmacy prior authorization reviews. By working

closely with Departmental policy staff, this position would assure that the fiscal agent staff perform their functions as required. This position needs to reside within the Department's internal staff because enforcement of Departmental policy produces better results performed by a position reporting directly to the Department.

The monitoring and reviews are time intensive and require dedicated FTEs to assure that the reviews are timely and thorough. The FTEs must be constant in the positions in order to attain the level of expertise that will achieve the most beneficial results. The General Professional IV classification is appropriate because these two positions must accept the responsibility of oversight and interface with the fiscal agent to guarantee that DRAMS operates constantly and effectively to produce the best results for the Department. Without these two positions, DRAMS would not be fully utilized. DRAMS can produce large volumes of data, but the extra data would be useless if there were no one to supervise the policies leading to the data input and no one to supervise and interpret the data output and to follow up to ensure that drug rebates actually occur.

A full year of Personal Services and Operating Expenses has been calculated for both fiscal years. The two FTEs would go through training on their job duties and learn to use the Medicaid Management Information System, the Prescription Drug Card System, and the Claims Processing Assessment System. They would also review and test data for the Drug Rebate Analysis and Management System to assure that implementation goes smoothly.

These two positions address the audit recommendation and the Department's agreement to evaluate staff resources for efficiently and effectively completing drug rebate processes.

Drug rebates are netted against the cost of prescription drugs within the Medicaid program. Increased drug rebates would produce a larger offset to prescription drug costs than currently occurs. Therefore, there would be additional savings in prescription drug costs that are larger than the costs of implementing and operating DRAMS. Please see the assumptions section for an explanation of the estimated drug cost savings.

Calculations for Alternative's Funding:

Summary of Request FY 06-07 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Federal Funds
Total Request [Items below total to this]	(\$1,350,774)	(\$769,136)	(\$581,638)
(1)Executive Director's Office, Medicaid Management Information System Contract	\$375,000	\$93,750	\$281,250
(1)Executive Director's Office, Personal Services	\$112,171	\$56,086	\$56,085
(1)Executive Director's Office, Operating Expenses	\$7,749	\$3,875	\$3,874
(2) Medical Services Premiums	(\$1,845,694)	(\$922,847)	(\$922,847)

Summary of Request FY 07-08 Matches Schedule 6 and Recommended Request	Total Funds	General Fund	Federal Funds
Total Request [Items below total to this]	(\$3,874,744)	(\$2,012,371)	(\$1,862,373)
(1) Executive Director's Office, Medicaid Management Information System Contract	\$300,000	\$75,000	\$225,000
(1)Executive Director's Office, Personal Services	\$112,171	\$56,086	\$56,085
(1)Executive Director's Office, Operating Expenses	\$1,739	\$870	\$869
(2) Medical Services Premiums	(\$4,288,654)	(\$2,144,327)	(\$2,144,327)

Table A: Costs Added to Medicaid Management Information System Contract				
Fiscal Year	System Added	Total Cost	General Fund	Federal Funds
FY 06-07	DRAMS Software Purchase	\$75,000	\$18,750	\$56,250
	DRAMS Installation	\$300,000	\$75,000	\$225,000
	Fiscal Year Total	\$375,000	\$93,750	\$281,250
FY 07-08	DRAMS Ongoing Maintenance	\$300,000	\$75,000	\$225,000
	Fiscal Year Total	\$300,000	\$75,000	\$225,000

Table B: FTE and Operating Expenses			
Fiscal Year(s) of Request		FY 06-07	FY 07-08
PERSONAL SERVICES	Title:	General Professional IV	
Number of PERSONS / class title		2	2
Calculated FTE per classification		2.00	2.00
Annual base salary (monthly * 12)		\$50,256	\$50,256
Number months <u>working</u> in FY 06-07 and FY 07-08		12	12
Salary			\$100,512
PERA	10.15%	\$10,202	\$10,202
FICA	1.45%	\$1,457	\$1,457
Subtotal Personal Services		\$112,171	\$112,171
OPERATING			
Supplies @ \$500/\$500	\$500	\$1,000	\$1,000
Computer @ \$690/\$0	\$690	\$1,380	\$0
Office Suite Software @ \$294/\$0	\$294	\$588	\$0
Office Equipment @ \$2,021 /\$0	\$2,021	\$4,042	\$0
Telephone Base (Annual)	\$369.60	\$739	\$739
Subtotal Operating		\$7,749	\$1,739
GRAND TOTAL ALL COSTS		\$119,920	\$113,910

Table C: Drug Rebate Savings			
Current Estimate	FY 05-06	FY 06-07	FY 07-08
Prescription Drugs (pre-rebate) ⁽¹⁾	\$306,323,673	\$355,886,843	\$253,466,558
Medicare Prescription Drug Benefit Impact ⁽²⁾	(\$65,864,527)	(\$137,719,725)	\$0
Revised Prescription Drugs	\$240,459,146	\$218,167,118	\$253,466,558
Drug Rebate ⁽³⁾	(\$45,921,591)	(\$43,895,224)	(\$50,997,471)
Drug Rebate, due to DRAMS, based on 22% ⁽⁴⁾		(\$47,996,766)	(\$55,762,643)
Difference/Increased savings⁽⁵⁾		(\$4,101,542)	(\$4,765,171)
Adjustment (reduce by 10%)⁽⁶⁾		\$410,154	\$476,517
Annual Savings		(\$3,691,388)	(\$4,288,654)
Six Months of Savings	N/A	(\$1,845,694)	N/A

Notes for above table:

- 1) The Department does not project prescription drug costs separately as part of the Medical Services Premiums Budget Request, however for purposes of estimating savings, an estimate of the pre-rebate drug cost for FY 05-06 was taken from page 118 of the March 15, 2005 Figure Setting Document. The Figure was inflated annual by 16.18% (average increase between FY 01-02 through FY 04-05). The impact of the Medicare prescription drug benefit is included in this line for FY 07-08.
- 2) These estimates were taken from attachment 2 of BRI -3 "Revision to the Medicaid Modernization Act Implementation" submitted November 15, 2005.
- 3) FY 06-07 and FY 07-08 Drug Rebate is estimated at the FY 03-04 actual rate of 20.12% (per Figure Setting, page 118).
- 4) Utilize the assumed drug rebate percentage of 22%, an increase of 1.88% above current rate.
- 5) Difference between Drug Rebate based on actual 20.12% and Drug Rebate based on 22%.
- 6) The Department reduced the savings by a factor of 10% to adjust for possible variances in the projection.

Impact on Other Areas of Government: No other state agencies are affected by this request.

Assumptions for Calculations: The federal financial participation rate for additional software added to the Medicaid Management Information System is assumed to be 75% and will be confirmed later by an

Advance Planning Document submitted to the federal Centers for Medicare and Medicaid Services.

The federal financial participation rate for Personal Services and Operating Expenses is 50%.

The cost to purchase the Drug Rebate Analysis and Management System (DRAMS) software subsystem was provided by the Medicaid Management Information System fiscal agent, Affiliated Computer Services. \$75,000 is the standard price for this particular software. The software is already developed and has been installed in the Medicaid Management Information Systems in other states.

The installation time frame was also provided by Affiliated Computer Services and based on the fiscal agent's experience in installing the same software in the Medicaid Management Information Systems in other states. The estimated installation and annual maintenance cost for DRAMS is \$300,000 per fiscal year. The installation covers the information initially supplied for DRAMS to operate. This information changes constantly, so every year there is continual maintenance. Examples of information necessary to be supplied to DRAMS would include:

- Prices paid for particular drugs and every change to the price
- Amount of rebate per unit paid by the manufacturer and every change in amount of rebate
- Daily interest rate changes to charge the manufacturer that pays rebates late
- Whether a drug qualifies for a rebate based on an agreement with the manufacturer (agreement is negotiated by the federal Centers for Medicare and Medicaid Services)
- Retroactive effective dates, if applicable, for drug rebates
- Identification of claims that are likely to be disputed by the manufacturer (based on incorrect billing by a pharmacy or other reason)
- Identification and tracking of payments from the manufacturers for drug rebates

- Crosswalks to medical claim procedure codes to identify rebates due on injectible drugs that would not otherwise receive drug rebates because they are hidden in the procedure codes
- Identification of drugs used in State Only programs (such as Prenatal State Only) for which the full amount of the rebate should be classed as General Fund

From fiscal years 95-96 through 02-03, the percentage of drug rebates collected, as compared to the total prescription drug expenditures, ranged from a high of 20.88% in FY 95-96 to a low of 8.11% in FY 02-03 when Medical Services Premiums converted from accrual accounting to cash accounting and only two quarters of rebates were recorded. During FY 03-04, the rebate percentage returned to a higher amount of 20.12%. The historical rebate percentages mentioned above are actual data from the Final Request for Medical Services Premium submitted February 15, 2005. The Caley Gordon Group, when performing their audit, contacted four states, Missouri, Oklahoma, Tennessee, and Washington, and determined that the Colorado collection rates for drug rebates are similar to the collection rates of these four other states.

An average of the percent of rebates collected for fiscal years in the late 1990s probably is not the best consideration for rebates going forward. Less emphasis was placed on drug rebates during those times. For example, the percentage of rebates in FY 96-97 was 13.58%, in FY 97-98 was 14.31%, and in FY 98-99 was 15.71%. The Department believes that the more recent drug rebate collection rate of 20.12% for FY 03-04 is more indicative of drug rebates for the future. Since rebates for the future are unknown, the Department reduced the calculated savings by 10% to ensure that necessary funding is not removed from the budget.

Per estimates provided by Affiliated Computer Services for drug rebate percentages in other states (District of Columbia, Hawaii, Indiana, Massachusetts, Minnesota, Mississippi, Montana, North Carolina, and Wyoming) that currently use DRAMS, the average drug rebate percentage is 22%. The Department has assumed that drug rebates would increase up to 22% compared to the FY 03-04 actual drug rebate of 20.12% in

Colorado. Due to the uncertainty of this assumption the Department reduced the savings estimate by 10% to allow for variances in the projection.

Although the savings for a full fiscal year in FY 06-07 are estimated to be \$3,691,388, DRAMS will take five months to implement and the first month after implementation may be needed to become accustomed to its use, so only six months of savings, \$1,845,694, have been used for FY 06-07. Rebates can still be claimed for the first six months of FY 06-07, but there will be some delay in claiming rebates for those months since DRAMS would not yet be operational when the first six months occur. A full year of savings would be expected in FY 07-08.

Personal Services and Operating Expenses are based on Common Policies for these items. Personal Services are calculated for the Job Class Title of General Professional IV. A full year of Personal Services and Operating Expenses has been calculated for both fiscal years.

Children's Basic Health Plan contributes to costs of the fixed price related to claims processing and capitation payments in the Medicaid Management Information System. However, other costs are considered outside the fixed price. Drug rebates are not part of the fixed price at this time, so no contribution from the Children's Basic Health Plan would be applicable to this Request.

The Medicaid Management Information System is currently in the process of reprocurement. It is assumed that the Drug Rebate Analysis and Management System, or a similar system, would continue to be a component of the Medicaid Management Information System after reprocurement is completed and transitional phases occur to continue the operations of the Medicaid Management Information System into future years.

Concerns or Uncertainties of Alternative:

The above mentioned savings for drug expenditures is only an estimate. The exact savings can not be known until after the software usage has been in effect for a full fiscal year.

Alternative B {Status quo; no change in funding; not recommended}:

General Description of Alternative: This alternative would not fund the Drug Prescription Analysis and Management System and two additional FTEs. Instead, the status quo would continue.

Calculations for Alternative’s Funding: No change in funding with this alternative.

Concerns or Uncertainties of Alternative: The Department would receive no additional relief on the continually rising drug costs and would not be able to increase the monitoring and accuracy of the internal rebate calculations without the necessary additional resources. Therefore, full compliance with the audit recommendations concerning drug rebates likely would be impossible.

Supporting Documentation

Analytical Technique: Analysis by considering return on investment can reveal the profitable alternative for the State. The results of the investment can be expressed in terms of what the State saves, or avoids spending, by completing the investment.

Alternative	Investment During FY 06-07	Cost Avoidance (Return on Investment)
A	\$494,920	\$1,845,694 saved by increased drug rebates netted against drug expenditures for 6 months. \$1,350,774 saved above investment.
B	\$0	\$0 saved - no increase in drug rebates
Alternative	Investment During FY 07-08	Cost Avoidance (Return on Investment)
A	\$413,910	\$4,288,654 saved by increased drug rebates netted against drug expenditures for full year. \$3,874,744 saved above investment.
B	\$0	\$0 saved - no increase in drug rebates

Quantitative Evaluation of Performance -

Compare all Alternatives:

Based on the above analysis, in FY 06-07, a savings of \$1,845,694 is generated through Alternative A, with an investment of \$494,920 in total funds for a net savings of \$1,350,774 in FY 06-07. This is a 270% return on investment ($(\$1,350,774 / \$494,920) = 2.7$). Alternative B has no extra investment, but also no extra savings. Therefore, Alternative A is the preferred alternative.

Statutory and Federal Authority:

26-4-105, C.R.S. (2005) Federal requirements under Title XIX. *Nothing in this article shall prevent the state department from complying with federal requirements for a program of medical assistance in order for the state of Colorado to qualify for federal funds under Title XIX of the social security act and to maintain a program within the limits of available appropriations.*

United States Code, Title 42, §1396r-8 (6) (b) (1) (A) *A rebate agreement under this subsection shall require the manufacturer to provide, to each state plan approved under this subchapter, a rate for a rebate period in an amount specified in subsection (c) of this section for covered outpatient drugs of the manufacturer dispensed after December 1, 1990, for which payment was made un the State plan for such period. Such rebate shall be paid by the manufacturer not later than 30 days after the date of receipt of the information described in paragraph (2) for the period involved.*

Department Objectives Met if Approved:

- 1.3 To assure payments in support of the programs are accurate and timely.
- 1.5 To accurately project, report, and manage budgetary requirements to effect Executive and Legislative intent with program and budget development and operations. To accurately record and monitor expenditures for programs managed by the Department so there may be accurate financial reporting at all times.
- 2.2 To improve management of the Department's information systems technology.