

AUDIT PROPOSAL

Follow-Up Audit: Reviewing Agencies' Implementation of Selected Performance Audit Recommendations

SOURCE

This audit proposal was suggested by LPA staff to satisfy the follow-up requirements of LPAC Rule 3-4.

BACKGROUND

The Legislative Post Audit Committee's rules provide for a follow-up process to help determine the extent to which agencies have implemented the recommendations from our performance audits. The follow-up process, which is laid out in LPAC Rule 3-4, has two primary components. First, the Post Auditor is required to follow-up with each agency on a quarterly basis and have officials self-report on their progress in implementing the recommendations that apply to their agency. Second, the Post Auditor is required to prepare an audit proposal each year that lists "previous audit recommendations for which follow-up audit work is necessary to independently ascertain whether such agency or other entity has implement the audit recommendations." The purpose of this audit proposal is to satisfy the second part of the Post Audit Committee's follow-up process.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objectives listed below represent the questions that we would answer through our audit work. The proposed steps for each objective are intended to convey the type of work we would do, but are subject to change as we learn more about the audit issues and are able to refine our methodology.

Objective 1: To what extent have agencies implemented selected audit recommendations from performance audits issued in recent years? Our tentative methodology would include the following:

- Attachment A lists the audit recommendations we are proposing for follow-up work.
- For each recommendation, review the materials submitted by agency officials as part of the quarterly follow-up process to determine the implementation status as reported by the agency.
- We would interview agency officials and staff, review agency documentation, and conduct other test work as necessary to verify the implementation status as reported.
- For any recommendations that do not appear to have been implemented as reported, we would follow-up with agency officials to determine why they have not been implemented.

ESTIMATED RESOURCES

We estimate this audit would require a team of **three (3) auditors** for a total of **three (3) months** (from the time the audit starts to our best estimated of when it would be ready for the committee).

**Proposed Recommendations for Follow-Up Audit Work
Fiscal Year 2017**

**Kansas State Employee Health Plan: Evaluating the State's Pharmacy Benefits Management System
(February 2015)**

1. To address the issues with the state's monitoring of spread pricing, the Kansas State Employees Health Care Commission and KDHE should include terms in its contract with the pharmacy benefit manager that would allow KDHE to periodically request data directly from pharmacies and test for spread pricing. (Implemented)
2. To address the issues with the state's monitoring of drug manufacturer rebates, the Kansas State Employees Health Care Commission and KDHE should:
 - a. Develop benchmarks to assess whether the total rebate amount received from its pharmacy benefit manager is generally reasonable. (Implemented)
 - b. Develop a process to verify whether the claims figures used by the pharmacy benefit manager to calculate the state's point-of-sale rebates is correct. (Implemented)
 - c. Contract with a third-party to periodically audit rebate amounts that the pharmacy benefit manager receives from drug manufacturers to ensure that the state receives the total amount of drug rebates to which it is entitled. (Implemented)
3. To address the issues regarding the state employee prescription drug formulary, the Kansas State Employees Health Care Commission and KDHE should regularly have a third-party conduct independent reviews of the pharmacy benefit manager's formulary recommendations to determine whether they are cost effective and in the best interest of the state and its employees. (Implemented)
4. To address the issues regarding mail-order prescriptions, the Kansas State Employees Health Care Commission and KDHE should monitor the number of mail-order prescription drug claims. If the share of these claims increases significantly, they should consider auditing the cost of mail-order prescription drug claims to ensure they cost less than prescriptions filled at walk-in pharmacies. (Implemented)
5. To address the issues regarding specialty drugs, the Kansas State Employees Health Care Commission and KDHE should:
 - a. Periodically monitor how much the state spends on specialty drugs. (Implemented)
 - b. Include specialty prescription drugs in the drug rebate audit planned for calendar year 2015. (Implemented)
 - c. Periodically take steps to monitor and ensure that pricing is accurate for specialty drug claims. (Implemented)

Kansas Public Employees Retirement System: Evaluating Controls to Detect and Prevent Fraud and Abuse (September 2015)

1. To address the issues with the field audits not being conducted, KPERS' fiscal services division should follow through with its current plan to reinstitute those audits. (Implemented)
2. To address the concern with individuals' eligibility for disability benefits, KPERS should work to establish inter-agency data-sharing agreements with the Kansas Department of Revenue and the Kansas Department of Labor for the purpose of identifying members who are no longer eligible. (Implemented)
3. To address the issues related to inaccurate 3 service credit records, KPERS should:
 - a. incorporate a check of members' service records into its field audit function and then correct any inaccuracies as they are discovered. (Implemented)
 - b. for the seven teachers we identified, make any corrections to records and contributions as required by law. (In Progress)

Kansas Department of Wildlife, Parks and Tourism: Evaluating a Jefferson County Land Purchase (March 2016)

1. To address the issue concerning the 14-acre tract of land KDWPPT paid for but never acquired, KDWPPT should work with the landowner to resolve the discrepancy between the number of acres listed and the tract descriptions in the purchasing agreement. (In Progress)
2. To address the issue concerning inadequate guidance, the agency should strengthen its land acquisition procedures to include the following guidance and procedures:
 - a. Include all state requirements that must be met for land acquisitions. (Implemented)
 - b. Specify who is responsible for completing each of the state's requirements. (Implemented)
 - c. Specify when each of the state requirements should be completed. (Implemented)
 - d. Specify which forms or other documents should be completed and provide guidance on what they should contain. (Implemented)
 - e. Develop a final review process to ensure all requirements have been satisfied, all closing documents are in order, and that the agency acquired the legal rights to all the land purchased. (Implemented)