

**ERIE COUNTY CARE FACILITY**  
**SPECIAL AUDIT REPORT**  
**JANUARY 1, 1997 TO SEPTEMBER 30, 1998**

<b>TITLE</b>	<b>TABLE OF CONTENTS</b>	<b>PAGE</b>
Schedule of Elected Officials		1
Report of Independent Accountants		2
Supplement to the Special Audit Report		
Background Information		4
Relevant Individuals and Entities		6
Glossary of Frequently Used Terms		7
Summary of Results:		
Issue 1 - Procedures for Purchasing and Receiving		8
Issue 2 - Orders, Packing Slips, Invoices		11
Issue 3 - Billing within Contract Rates		18
Issue 4 - Award of Contracts		22
Issue 5 - Residents' Personal Property		25
Issue 6 - Procedures for Medical Supply Inventory		27

**SCHEDULE OF CERTAIN ELECTED OFFICIALS  
AS OF SEPTEMBER 30, 1998**

ELECTED OFFICIALS	TERM OF OFFICE	SURETY	AMOUNT	PERIOD
<u>Board of Commissioners</u>				
Harold C. Butcher	01/01/95 - 12/31/98	(A)	\$5,000	(D)
Thomas M. Ferrell, Jr.	01/03/97 - 01/02/01	(B)	\$5,000	(D)
Nancy C. McKeon	01/02/97 - 01/01/01	(A)	\$5,000	(D)
	01/02/97 - 01/01/01	(C)	\$5,000	(D) *

County Auditor

Judo T. Hammond	Appointed to Unexpired Term 07/13/98 - 03/08/99	(B)	\$20,000	(D)
-----------------	--	-----	----------	-----

Statutory Legal Counsel

Kevin J. Baxter Prosecuting Attorney of Erie County 247 Columbus Avenue, Suite 319 Sandusky, Ohio 44870-2636	01/06/97 - 01/05/01	(B)	\$ 1,000	(D)
---	---------------------	-----	----------	-----

(A) USF&G Casualty

(B) Ohio Farmers Insurance Company

(C) Auto-Owners Mutual Insurance

(D) Concurrent with term

\* Ms. McKeon has two bonds.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

REPORT OF INDEPENDENT ACCOUNTANTS

Erie County Board of Commissioners  
Erie County  
2900 Columbus Avenue  
Sandusky, Ohio 44870-5554

Pursuant to our Letter of Arrangement dated November 1, 1998 which was amended on April 29, 1999 to revise two of the six original procedures, we have conducted a Special Audit and performed the procedures summarized below, and detailed in our "Supplement to the Special Audit Report", which were agreed to by you, for the period January 1, 1997 through September 30, 1998 (the Period). These procedures were performed solely to determine if Erie County (the County) had been improperly double-billed for pharmaceuticals and/or medical supplies. We also attempted to determine whether the County had been billed only for pharmaceuticals and/or medical supplies which were received, and that billing was made in accordance with established contract rates. In addition, we performed procedures to determine if a conflict of interest existed among the former Administrator and former Director of Nursing at the Erie County Care Facility (the Care Facility), and the owners of Pharmed Corporation and Bay Pharmacy. Lastly, we performed procedures to determine if personal property of the Care Facility residents had been misappropriated. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of this report. Consequently, we make no representations regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose. The procedures we performed are summarized as follows:

1. We reviewed the operational policies, procedures and practices which were exercised by the County on behalf of the Care Facility for the Period to determine what procedures were in place related to the purchase and receipt of inventory and pharmaceuticals, payments to providers, and the subsequent billings to outside agencies (e.g., Medicare and/or Medicaid).
2. We obtained and reviewed invoices, packing slips, and vouchers related to medical products provided by Pharmed Corporation and pharmaceutical products provided by Bay Pharmacy, to determine whether the Care Facility had been double billed for items ordered for Medicare, Medicaid, and/or private pay residents.
3. We reviewed billing statements received from Bay Pharmacy and Pharmod Corporation to determine the Care Facility was billed only for items received, and if applicable, in accordance with established contract rates.
4. We obtained background information to determine if the former Care Facility Administrator and/or former Director of Nursing had a conflict of interest with the owners of Pharmod Corporation and Bay Pharmacy which affected the award of contracts.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### BACKGROUND INFORMATION

In late September 1998, the Erie County Sheriff (John E. Magnuson) contacted the Auditor of State's Office regarding potential irregularities revolving around business transactions conducted between the Erie County Care Facility and the Pharmed Corporation of Westlake, Ohio, and a "sister" business of Pharmed Corporation, Bay Pharmacy. These potential irregularities included double billing for medications supplied to the Care Facility, and billing at different rates for the same medications. Attached to Sheriff Magnuson's correspondence was documentation prepared by Fran Neely, Director of Nursing, regarding an internal review which she conducted of transactions between the Care Facility and Bay Pharmacy in July 1998.

In addition to Sheriff Magnuson supplying the results of Ms. Neely's internal review to the Auditor of State, Ms. Neely had also forwarded the results of her investigation to the Attorney General Medicaid Fraud Control Unit and the State Board of Pharmacy. Each of these entities completed their own review of Ms. Neely's allegations.

The Attorney General Medicaid Fraud Control Unit stated "none of the information provided by Neely in any way suggests Medicaid fraud, nor is it indicative of Medicaid over-payments."

The results of the State Board of Pharmacy review found "none of the documents provided show conclusively that any of the above allegations are true;" and "Many of the issues are a dispute between Pharmed/Bay Pharmacy and the County Care Facility."

Ms. Neely also discussed her results of the July 1998 transaction review with officials at Bay Pharmacy, who then performed their own review of activities billed to the Care Facility. Based on Bay Pharmacy's review, credits in the amount of \$538.49 were issued to the County for instances where Bay Pharmacy agreed with Ms. Neely's concerns.

In a letter dated September 29, 1998, Sheriff Magnuson requested that a special audit be performed at the Care Facility.

Also a letter dated September 30, 1998, from the Prosecuting Attorney of Erie County (Kevin J. Baxter) to the Auditor of State's Office, stated "a strong possibility of fraudulent activity" had occurred at the Care Facility, but no specific allegations were communicated. The correspondence received from Prosecutor Baxter requested the Auditor of State perform a special audit of the Erie County Care Facility.

On October 1, 1998 we received a letter from the Erie County Board of Commissioners asking the Auditor of State to proceed with a special audit of the Care Facility.

These matters were brought before the Auditor of State's Special Audit Committee in early October, 1998, where a decision was made to initiate a special audit.

During the performance of this engagement, the Erie County Care Facility could not provide us with all order forms and packing slips to support services provided by Pharmed Corporation and Bay Pharmacy. Additionally, computerized inventory reports and bid proposals for the purchase of gloves were not maintained on file at the Care Facility. Through interviews with Care Facility personnel, two employees alleged the former Administrator and his assistant had been removing records from the Care Facility, and paper shredding had increased significantly as the financial audit of 1997 approached. (The period for the County's 1997 financial audit was January 1, 1997 through December 31, 1997. Audit fieldwork for

## **SUPPLEMENT TO THE SPECIAL AUDIT REPORT**

### **RELEVANT INDIVIDUALS AND ENTITIES**

---

Judo Hammond, Erie County Auditor

Kevin Baxtor, Prosecuting Attorney of Erie County

Gary Lickfelt, Assistant Prosecuting Attorney of Erie County

Terri Griffith, Assistant Prosecuting Attorney of Erie County

Harold Butcher, Erie County Commissioner

Thomas Ferrell, Erie County Commissioner

Nancy McKeon, Erie County Commissioner

Harry VandeVoide, Former Administrator, Erie County Care Facility

Cyd Jameyson, Former Director of Nursing, Erie County Care Facility

Brad Storer, Administrator, Erie County Care Facility

Fran Nooly, Current Director of Nursing, Erie County Care Facility

Bay Pharmacy (David Coury, Director of Operations)

Pharmed Corporation (Elijah Coury, President)

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### GLOSSARY OF FREQUENTLY USED TERMS

---

- Medicare A:** When a resident requires above intermediate care, and has had a three-day prior hospital stay, the resident qualifies as a Medicare A "skilled patient." This is similar to hospital insurance coverage.
- Medicare B:** Medicare B is similar to medical insurance coverage. In addition to visits with a physician, Medicare B provides coverage for outpatient therapy and medical supplies.
- Private Pay:** The resident has private insurance, and is not covered by either Medicare or Medicaid.
- Formulary:** Prescription drugs which are included as allowable items in the Medicaid insurance system. The County is not responsible for payment of prescription drugs on the Medicaid formulary.
- Non-formulary:** Contrary to formulary drugs, the non-formulary items are those items proscribed by a physician which are not included as an allowable cost by Medicaid. For most non-formulary items, a generic equivalent is available which is likely to be included in the Medicaid formulary. The County is responsible for making payments to its pharmaceutical provider for non-formulary Medicaid drugs. Medicaid does not reimburse the County for these expenses.
- Average Wholesale Price (AWP):** Most prescription drugs and medical supplies are packaged by various suppliers, each of which charges a slightly different price for its product. Several publishing companies compile these different prices and arrive at an "average" price, which is then labeled "average wholesale price."
- Usual, Customary, Reasonable (UCR):** This is the amount set by Bay Pharmacy to charge the County for prescription drugs for the Medicare residents. Bay Pharmacy has set its UCR by adding a dispensing fee to the average wholesale price.
- Medicare UB-92 Cost Reports:** The UB-92 Medicare Cost Report is a detailed report on each resident, which identifies the individual charges incurred monthly for each resident, including room and board, pharmaceuticals, and medical supplies for each particular month. Personnel at the Care Facility compile the information for these reports each month.
- Medicare Financial Part A Log:** This log is prepared each month by personnel at the Care Facility. It documents the Medicare residents who are considered as skilled care. The residents' names, number of days of skilled care services, and total charges for routine services and drugs/supplies are presented on these logs, which are submitted to Medicare with the UB-92 Cost Reports each month. Medicare reimburses the Care Facility a set per diem for each patient, and all remaining charges are absorbed by the County.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### SUMMARY OF RESULTS

#### **ISSUE 1 - Procedures for Purchasing and Receiving**

We reviewed operational policies, procedures, and practices which were exercised by the County on behalf of the Care Facility, to determine what procedures were in place related to the purchase and receiving of inventory and pharmaceuticals, payments to providers, and the subsequent billings to outside agencies (e.g., Medicare and/or Medicaid).

#### **PROCEDURES**

We interviewed Valerie Rimboch, Accounting Clerk III, on April 21 and 23, 1999, and on May 12, 1999, to discuss billing procedures. We also interviewed Cherylyn Mead, Nurse Aide/Supplies Clerk, on December 9, 1998, to discuss procedures for ordering and receiving pharmaceuticals and/or medical supplies. We also spoke with Donna Willman, Accounting Clerk III, and Fran Neely, Director of Nursing, on May 13, and May 14, 1999.

#### **RESULTS**

1. Valerie Rimboch, Accounting Clerk III, provided us with information regarding billing procedures. We learned the County is responsible for making payments to the pharmaceutical provider for drugs which are not in the Medicaid formulary. In other words, the County is not able to seek reimbursement from Medicaid when Medicaid residents receive items which are deemed not to be included in the Medicaid formulary. For those items which are included on the Medicaid formulary, the pharmaceutical provider (in this case, Bay Pharmacy) bills directly to Medicaid and receives reimbursement directly from Medicaid.
2. Residents with private insurance are billed directly by the pharmaceutical provider (again, Bay Pharmacy), and the County is not provided billing information for those residents.
3. The pharmaceutical provider also bills the County for residents classified as Medicare A (a.k.a. "skilled Medicare"). For these Medicare A residents, the Care Facility requests reimbursement from Medicare, by completing a standard UB-92 Medicare Cost Report.
4. Ms. Rimboch also reviewed procedures related to billing for medical supplies. The County's medical supply company (during our audit period, Pharmed Corporation) bills the County for all supplies with the exception of Medicare B residents, which Pharmed Corporation bills directly to Medicare.
5. Cherylyn Mead, Nurse Aide/Supplies Clerk, stated that orders are faxed or phoned to the pharmaceutical and/or medical supplies companies. Packing slips are received with deliveries, and these packing slips are compared to the actual shipment to ensure all items have been appropriately delivered. Although packing slips are signed by the employee who is reconciling the slips to the shipment, the Care Facility copy of the packing slips are not always maintained, and the employees at the Care Facility were unable to provide us with these documents. Consequently, we issued subpoenas through the Erie County Prosecutor's office to the providers of both the pharmaceuticals



## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

and medical supplies for the Care Facility during the Period. The County's Record Retention Policy did not address retaining these documents.

6. Two employees alleged the former Administrator and his assistant had been removing records from the Care Facility, and paper shredding had increased significantly as the financial audit of 1997 approached (as stated previously, field work for the financial audit of the period ending 12/31/97 began on November 12, 1997 and continued through September 3, 1998). One of these employees told us the amount of paper being shredded was not consistent with amounts that would be expected if shredded documents consisted only of handwritten memos and errors in printing. Although we cannot conclusively state what documents were shredded, the Care Facility was not able to provide us with all order forms, packing slips, and inventory reports we requested to perform these agreed-upon procedures.
7. Employees of the Care Facility stated that packing slips and orders had not been maintained at all times because the employees were not aware that such documents should be kept on file. Ms. Mead also informed us that she had not been keeping the receiving and disbursement reports produced by the computer's inventory system because she had never been told to retain such documents.
8. We also inquired as to whether any of the employees reconciled the signed packing slips with the invoices, but we received conflicting responses, including one employee who did not know if this procedure was being performed. Another employee stated this was performed beginning in mid-1998, however any notations on the packing slips (e.g., credit information, returned or not received medications) were not considered when reconciling the packing slips to the invoices. A third employee informed us that invoices were "spot-checked" against packing slips.
9. We found that there is no detailed procedure/policy manual at the Care Facility, detailing the processes that are required to be performed for purchasing, receiving, and dispensing drugs and medical supplies, as well as billing and inventory procedures.

### NON-COMPLIANCE CITATIONS

Ohio Revised Code Section 149.351 states all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Sections 149.38 to 149.42. The Care Facility employees did not retain records in accordance with the aforementioned provisions. Numerous records, including order forms and packing slips, had been destroyed or were lost, and therefore Care Facility personnel were not able to present us with these documents for our audit. Procedures should be formulated and a filing system should be established that will provide the mechanism for all records created by the Care Facility to be filed and maintained.

### MANAGEMENT COMMENTS

#### Maintenance of Documents

Many of the documents supporting medical supplies and pharmaceutical purchases could not be located by the Care Facility personnel for our audit period. In addition, many of the inventory medical supplies

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

reports could not be located. These documents are the support for the purchasing, receiving, and dispensing of the above products and are an important part of the control process. The lack of such records could result in errors being made in the amounts that are billed to or billed by the Care Facility, thereby resulting in potential overpayments from the County to the pharmaceutical and/or medical supplies vendor(s). We recommend all documents supporting purchases and all reports generated by the computer inventory software be maintained at the Care Facility, and filed in chronological order:

### Schedule of Records Retention and Disposition

The Schedule of Records Retention and Disposition does not address any of the documents processed at the Care Facility. The Care Facility was not able to provide all documents which we requested to perform our audit. Many documents had been destroyed or were missing. By not retaining vital documents to support the purchase of pharmaceuticals and medical supplies (e.g., order forms, packing slips, etc.), the Care Facility is not able to substantiate that items ordered were received, that orders shipped were complete, and that the invoices are inclusive of all items received. We recommend the County update the current Schedule of Records Retention and Disposition document to include, at a minimum, order forms, packing slips, voucher support, vouchers, and inventory reports processed at the Care Facility.

### Reconciling of Packing Slips and Invoices

The Care Facility does not reconcile the pharmaceutical and medical supply packing slips to the invoices on a regular basis. This is an important control to ensure the Care Facility is only billed for what they received, and to ensure the Care Facility is taking advantage of all credits due the County. This lack of reconciling relevant documents related to receiving and purchasing goods could result in the Care Facility paying for products they did not receive, or failing to take all applicable credits due. To strengthen controls over the payment process, we recommend each month, prior to making payments on each monthly invoice, the Care Facility compare the packing slips to the appropriate monthly invoice, and note any variance concerning the quantity received and quantity billed on the invoice. Additionally, the Care Facility should maintain a log of credits incurred during the month, and reconcile such log to the invoices prior to authorizing payments.

### Policy/Procedure Manual

The Care Facility does not have a policy/procedure manual detailing the various processes that need to be performed for purchasing, receiving, dispensing, and billing, and the inventory reports that need to be generated. A policy/procedure manual is an important part of the control process because it outlines the exact procedures that must be performed and who is responsible for those procedures. Without a policy/procedure manual, there is no clear instruction for the performance of routine tasks at the Care Facility, and the staff have no source of reference when they experience uncertainty. We recommend the Care Facility comprise a policy/procedure manual that details the procedures and processes that need to be performed for the purchasing, receiving, dispensing, and subsequent billing of all medical supplies and pharmaceuticals. This manual should also state what position or person is responsible for each process or procedure. This manual should be given to all personnel who are involved in any of these areas, and should be updated periodically.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### RESULTS

1. With regard to Pharmed Corporation supporting documentation, the Care Facility had retained packing slips and order forms for the months of May and November of 1997 and packing slips and order forms were found for certain days in January, February, and March of 1998. In early 1998, the Care Facility did not maintain these documents in a logical, organized manner. These documents were included in a large stack of papers containing a multitude of other documents, and Care Facility personnel admitted they did not maintain all supporting packing slips and order forms. Since the Care Facility did not maintain the supporting documentation, we had to utilize the order forms which were on file at Pharmed Corporation, which we obtained through the issuance of a subpoena. We compared the order forms to the packing slips, which are used as the invoice by Pharmed Corporation, and determined the information was in agreement and supported the invoice payments.
2. Order forms were either faxed or phoned-in to Pharmed Corporation by nursing staff at the Care Facility. There were forty-seven (47) instances where orders were placed to Pharmed Corporation via telephone.
3. With the exception of Medicare B residents, order forms did not indicate resident information.
4. Packing slips provided information of what was shipped and the charges for each item. One copy of the packing slip is sent to the Care Facility as the invoice. When items were not shipped (e.g., on back-order), the Care Facility was not charged. We noted eighteen (18) instances where packing slips were not signed by Care Facility staff as having received the supplies, however the invoices were signed as "okay to pay" by administrators. In seventeen (17) instances, the quantity received was not the same as the quantity ordered, however we found the billing was only for the items received. There were twenty-two (22) instances where items were shown on back-order, however the Care Facility was not billed for those items.
5. There were handwritten notations on two (2) packing slips which stated credits amounting to \$35.86 were due for returned items, however the full amount of the packing slip was paid, and no issuance of a credit invoice by Pharmed Corporation was noted. The credit notations were made by Care Facility personnel after the original packing slip was signed and there is no documentation that suggests the Care Facility informed Pharmed Corporation that a credit was due.
6. County voucher totals agreed to Pharmed Corporation invoice history report, with the exception of January 1998. Pharmed Corporation's report showed that a credit was due to the Care Facility in January 1998, but the Care Facility had not paid that voucher as of the date of our testing. We informed the Chief Deputy Auditor at the County, that a credit was due, to prevent the County from paying for goods/services not received.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

7. Resident medical charts did not indicate usage amounts of pharmaceuticals and supplies. Of the twelve (12) charts reviewed, which included a total of twenty-nine (29) pharmaceuticals, only fifteen (15) items were documented as being used in the resident's chart. In six (6) instances, the resident's chart documented usage, but the amount used was not clearly stated. For example, gauze rolls were documented in the resident's chart as being used, but the amount of the roll was not documented. In five instances, the amount of usage in the resident's chart did not agree to Pharmmed Corporation's billing to Medicare. In three instances, the resident's chart did not document any usage of the item tested. Due to the Care Facility's lack of documentation in the resident's medical charts, we were not able to determine that Pharmmed Corporation had accurately recorded usage amounts in their reports for reimbursement to Medicare.

### MANAGEMENT COMMENTS

#### Phone Orders

The Care Facility places phone orders to vendors for pharmaceuticals and medical supplies. When placing phone orders, the vendor is writing the order, as it is dictated over the phone by the employee at the Care Facility. We found that phone orders were used in thirty-percent (30%) of the orders we tested. In many cases, the phone orders were not completely documented as required on the "Order Sheet." For example, there was no indication of who called the order in from the Care Facility and there was no indication of who accepted the order at the vendor's location. Additionally, the Care Facility is not maintaining any documentation of orders which are called in to the vendor. By using phone orders so frequently, and not maintaining any documentation supporting those orders, the Care Facility is not able to compare orders with packing slips to ensure only items which were ordered were received. This could lead to the Provider writing phone orders for any number of items, then billing the Care Facility for payment on unauthorized orders.

We recommend the Care Facility utilize phone orders only in the case of true emergency, as deemed necessary by a physician, due to resident health and safety. When utilizing phone orders, we recommend the Care Facility establish a detailed log of items ordered by phone, who ordered the items, and who at the vendor location accepted the order.

#### Packing Slip Documentation

Even though most packing slips were signed, there were no specific notations or other designation that each item was received. Also, for items that were not received or for partial orders, no documentation was found indicating any follow-up to determine if it was shipped later at no charge or whether the charge should be removed or reduced.

In addition to the signing of the packing slip, we recommend a notation is made beside each item indicating whether it was received, partially received, or not received. For all partially received orders or orders not received, a log should be maintained tracking these orders. This log should indicate whether the order was subsequently received or not, and whether there was an additional charge when it was received. This log should be reconciled to the monthly invoice and any adjustments needed for items not received, or double charges should be indicated on the invoices before it is submitted to the County Auditor for payment.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Documentation of Medication Usage

Information is put on the residents' monthly UB-92 Medicare Cost Reports to indicate what medication has been taken but this usage information is not always transferred to the residents' charts. We recommend that beside each medication a clear indication be made of how much of the medication has been taken, or if it has been returned. Also, for medications that have not been taken or returned, a log be established that records these items and the costs. This log should be reviewed in the subsequent months to check the status of these items, that is if they have been taken, returned, or disposed of. If they have been taken, the charges should be included in the UB-92 Medicare Cost Report amounts.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 2-B, BAY PHARMACY

#### PROCEDURES

We obtained voucher packets from the office of the County Auditor for all payments made to Bay Pharmacy during the Period. Voucher packets included detailed invoices from Bay Pharmacy, the voucher cover sheet, and approval signatures of the Commissioners. Further supporting documentation, such as order forms and packing slips, were not maintained at the Care Facility. Consequently, we issued a subpoena for Bay Pharmacy to provide us with order forms from the Care Facility, as well as signed packing slips for receipt of orders. Packing slips are duplicate. An employee of the Care Facility signs the top copy while it is attached to the second copy. Then, the Care Facility receives the bottom copy and Bay Pharmacy maintains the top copy, with the original signature. We traced orders from the Care Facility to the signed packing slips to determine if goods were received by employees at the Care Facility. In addition, we compared the invoices to the signed packing slips to determine if the Care Facility only paid for the supplies received.

We determined whether the items charged to the Care Facility were stock items for the Facility (i.e., not specific to any resident), or Medicaid non-formulary drugs, which the County is responsible for paying to Bay Pharmacy. We also determined that residents presented on the invoices were properly classified as to type of insurance.

We reviewed monthly UB-92 Medicare Cost Reports prepared by the County, as required by Medicare to determine whether Medicare charges were recorded in the Medicare Financial Part A Log and the twenty-five percent mark-up was correctly calculated. We attempted to verify that residents which were charged by Bay Pharmacy as Medicare or Medicaid residents were registered as Medicare or Medicaid residents at the Care Facility at the time of service.

Based on the initial referral from Sheriff Magnuson, we reviewed the concerns submitted by Ms. Neely, Director of Nursing, which include ten (10) instances of billings to the Care Facility for medications prescribed to Medicare residents, which the Care Facility allegedly did not receive, and five (5) occasions where the Care Facility allegedly was billed by Bay Pharmacy for incomplete shipments. Ms. Neely also cited nine (9) instances of the Care Facility being charged a dispensing fee for some shipments. We reviewed the supporting documentation related to the transactions specifically identified by Ms. Neely to determine if her allegations were correct.

#### RESULTS

1. The Care Facility retained packing slips and order forms for the months of May, June, and July 1998. Care Facility personnel admitted during interviews they did not maintain all supporting packing slips and order forms. Since the Care Facility did not maintain the supporting documentation, we had to utilize the order forms which were on file at Bay Pharmacy, which we obtained through the issuance of a subpoena. We compared the order forms to the packing slips, and determined, with the exceptions noted in Result No. 2, below, the information was in agreement and supported the invoice payments.
2. Packing slips provided information of what was shipped, however the charges for the items were not included on these forms. For the four hundred thirty-three (433) items we reviewed, we noted

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

only seven (7) instances where packing slips were not signed by Care Facility staff as having received the supplies. We were unable to locate packing slips for approximately twelve percent (12%) of the items tested, and order forms were not located for approximately fourteen percent (14%) of the items for which the Care Facility was billed.

3. The Care Facility was including Medicare over-the-counter charges on their Medicare Financial Part A Log and on the UB-92 Medicare Cost Reports in error. These inclusions did not affect reimbursements from Medicare to the Care Facility, because reimbursement is based on a standard per diem which is set by Medicare. The Care Facility records did not clearly indicate usage amounts in the residents' medical charts, which prevented us from testing that usage was accurately reported on the Medicare Financial Part A logs.
4. After researching the Internet for information regarding formulary and non-formulary Medicaid drug information, we contacted the Ohio Department of Human Services. We spoke with Bob Reid, Administrator of Pharmacy Services.

We inquired as to the difference between formulary and non-formulary drugs. Mr. Reid stated that items which the average public citizen could purchase directly from a pharmacy without a prescription would normally be considered non-formulary for Medicaid. Usually these items are acquired without a prescription.

Mr. Reid told us that the list of the Medicaid formulary was quite large (many volumes), and was constantly being changed and updated. For this reason, he stated it would be impractical, if not impossible, to go back to 1998 and verify the large volume of items which we were attempting to test. In lieu of obtaining formulary and non-formulary information, we asked Mr. Reid if he was able to tell us if specific drugs were or were not include on the formulary.

We provided Mr. Reid with the names of six pharmaceuticals selected haphazardly from the Bay Pharmacy invoices. For each of these items, we were told by Mr. Reid that they would not be included in the Medicaid formulary, and thus were the responsibility of the Care Facility to pay for.

Mr. Reid went on to state that for most of the items that are non-formulary, there are substitutions which can be made to switch to products that are on the formulary. He said most nursing homes have arrangements with their pharmacists to contact the nursing home, should an item not be covered by Medicaid. Then the physician is contacted to determine if the substitution can be made, thereby saving the nursing home from paying for that product. Alternatively, the non-formulary drugs can be covered by Medicaid when prior authorization is received.

5. The transaction review conducted by Ms. Neely, Director of Nursing, and included with Sheriff Magnuson's original request for a special audit noted several specific concerns. First, she noted three Medicare residents were billed for medications which were not received. We noted this allegation is true; however, Bay Pharmacy allowed the Care Facility credit for each of these instances.
6. Ms. Neely noted four (4) occasions where Bay Pharmacy billed the Care Facility for items not included in shipments. This allegation is true; however Bay Pharmacy provided the Care Facility credits for three of the occasions. In the fourth occasion, the Care Facility had signed a packing slip stating they received all items in the shipment, so Bay Pharmacy did not issue credit.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

7. Another concern of Ms. Neely was duplicated delivery of medications. In the example which she cited in her internal review, we found that this may have been a duplicated delivery; however personnel at the Care Facility signed the packing slip to receive the shipment.
8. Ms. Neely's last concern was the Care Facility being charged a dispensing fee on Medicaid residents. This allegation is correct; however, these nine errors were corrected by Bay Pharmacy during their comprehensive review of 1998 billings.
9. Sheriff Magnuson had also forwarded Ms. Neely's transaction summary to the Attorney General Medicaid Fraud Control Unit, while Ms. Neely contacted the Ohio State Board of Pharmacy. Each of these entities conducted their own review of Ms. Neely's concerns, and forwarded their reports to us, to incorporate into this engagement. Additionally, Ms. Neely raised her concerns with Bay Pharmacy, who then performed a comprehensive review of billings to the Care Facility during calendar year 1998, and issued credits where applicable.
10. The Attorney General Medicaid Fraud Control Unit performed a review of Ms. Neely's concerns, and provided us with a copy of their report dated October 30, 1998. Based on the documents provided by Ms. Neely, the Attorney General Medicaid Fraud Control Unit determined that "none of the information provided by Neely in any way suggests Medicaid fraud, nor is it indicative of Medicaid over-payments." The report goes on to state, in part, "While Neely has suggested a number of potential problems with the contract by and between the Care Facility and Bay Pharmacy....these issues clearly do not fall within the jurisdiction of the Medicaid Fraud Control Unit."
11. The report of the State Board of Pharmacy found that based on documents provided by Ms. Neely, "none of the documents provided show conclusively that any of the above allegations are true." Ms. Neely was concerned that a dispensing fee is being placed on over-the-counter items. The State Board of Pharmacy found that to be a contract pricing issue. The State Board of Pharmacy also found that "many of the products provided were special request items that needed prior authorization for brand name or non-formulary products" which is why the Care Facility was billed for such non-formulary items. The report finds "the alleged medication errors reviewed showed nothing substantial." The report ends with the comment, "Based on the documents provided, no substantive evidence of fraud or multiple medication errors appear at this time. Many of the issues are a dispute between Pharmed/Bay Pharmacy and the County Care Facility."

### MANAGEMENT COMMENTS

#### Non-Formulary Medicaid Drugs

The County is billed for all Medicaid non-formulary pharmaceuticals which are provided to residents of the Care Facility. These amounts are not reimbursed by Medicaid to the County. Many non-formulary Medicaid drugs have adequate substitutions which are included on the Medicaid formulary. Through purchasing non-formulary pharmaceuticals, the Care Facility is increasing the costs paid by the County to care for Medicaid residents. We recommend the Care Facility negotiate with their pharmaceutical vendor to provide guidance when there is a substitute available for any given drug which is not on the Medicaid formulary. Further, we recommend the Care Facility discuss any substitutions with the physicians who are prescribing medications, to obtain approval for substitutions of drugs which are included in the Medicaid formulary, thereby decreasing non-reimbursable costs to the County.



## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 3 - Billing within Contract Rates

We reviewed billing statements received from Bay Pharmacy and Pharmed Corporation to determine the Care Facility was billed only for items received, and if applicable, in accordance with established contract rates.

Due to the fact procedures are different for each of these corporations, each will be presented as a separate set of procedures, results, and management comments. Pharmed Corporation will be referred to as Issue 3-A, while Bay Pharmacy will be referred to as Issue 3-B.

#### ISSUE 3-A - PHARMED CORPORATION

##### PROCEDURE

We read the contracts awarded to Pharmed Corporation for both disposable underpads and gloves, to determine the correct fees which the Care Facility should have been charged for these items. We tested five (5) months of invoices prepared by Pharmed Corporation, to determine if the amounts charged were in compliance with the contract.

##### RESULT

The Care Facility was charged for disposable underpads and gloves in accordance with the rates established in the contracts with Pharmed Corporation.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 3-B, BAY PHARMACY

#### PROCEDURES

We obtained the agreement between the County and Bay Pharmacy and read it to determine if the amounts charged to the County for pharmaceutical services were in compliance with the established terms. The County did not execute a formal contract with Bay Pharmacy. Instead, the governing document utilized by the parties to conduct business was the resolution authorizing the transaction (Resolution No. 98-1) along with the bid specs and the bid proposal submitted by Bay Pharmacy. However, for the purposes of this section, we will refer to the established terms as the "contract documents."

We selected thirty-five residents and prepared detailed spreadsheets documenting medications received by each resident from the start date of the Bay Pharmacy contract, January 1, 1998, through the end of the audit period, September 30, 1999, to determine if the amounts charged were in compliance with the contract. We also documented the insurance status of these residents per the invoices from Bay Pharmacy to determine if each resident's insurance type reconciled to the Care Facility's records of insurance status.

#### RESULTS

1. The resolution entering into this agreement did not clearly state what items were part of the "contract documents." The County Prosecutor informed us the bid proposal and the resolution is the agreement both parties are operating under. No formal contract was established.
2. The "contract documents" did not address what amounts were to be charged for Medicare residents. As a result, Bay Pharmacy was charging the Care Facility a usual, customary, and reasonable charge (UCR) for Medicare residents. This UCR charge includes a dispensing fee, which is calculated by Bay Pharmacy.
3. The "contract document" is not well-defined with regard to the pricing to be charged to the Care Facility from Bay Pharmacy. The proposal from Bay states that charges to the Care Facility will be at average wholesale price (AWP) less ten-percent. The "contract document" does not state the source of the AWP, as there are several sources of AWP's, and many different manufacturers who package the same pharmaceuticals with different AWP's. Additionally, the "contract document" does not address if billing is to be at AWP based on Bay Pharmacy's purchases from their supplier, or if it is at AWP based on the quantity which Bay Pharmacy dispenses to the Care Facility. Due to the vagueness of the "contract documents" with Bay Pharmacy, and the fact that many pricing sources are available, we were unable to test actual charges of items to the Care Facility for services from Bay Pharmacy.
4. We found ten instances where Bay Pharmacy charged the Care Facility for items received by private pay residents which should have been billed directly by Bay Pharmacy to the resident. This resulted in the Care Facility paying invoices which were the responsibility of the private pay resident. The total amount charged to the Care Facility in error was one-hundred ninety dollars and fifty-two cents (\$190.52). We informed the County of these results, so they are able to take steps to recover these billing errors from Bay Pharmacy.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Resident Billing Status

Billings for pharmaceuticals are submitted by the pharmacy to the Care Facility with detailed information regarding resident name and service date. We noted twelve (12) instances where the pharmacy company was billing the Care Facility for residents whose insurance classification was not correct. Billing the Care Facility with incorrect insurance information could result in the County paying for services/pharmaceuticals for residents which the Care Facility is not responsible (i.e., private pay residents). To ensure the County is billed only for those residents which it is responsible for we recommend the Care Facility perform periodic reviews of billings submitted by their pharmacy to ensure residents are properly classified as to type of insurance.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### ISSUE 4 - Award of Contracts

We obtained the social security numbers of the former Care Facility Administrator and the former Director of Nursing to perform computerized data searches of personal profiles which would be utilized to aid us in determining if a conflict of interest existed with Pharmed Corporation and/or Bay Pharmacy.

#### PROCEDURES

To obtain background information on how the agreement with Bay Pharmacy was executed, we reviewed the working papers from the 1997 financial audit, which contained a Management Letter citation and recommendation regarding the improper awarding of the Bay Pharmacy contract. The citation resulted because the awarding of the contract was not based on cost or a cost analysis of frequently used medications. The recommendation concerned the bid specifications not containing a list of frequently used medications, so a cost analysis could be used to award the contract.

We reviewed the process of awarding the Pharmed Corporation contracts for disposable underpads and gloves to determine if bids were requested, received, and evaluated prior to awarding these contracts.

Additionally, we had the County Auditor provide us with the social security numbers and last known addresses of the former Care Facility Administrator and former Director of Nursing. This information was used to obtain a personal profile of each person, including possible a.k.a.'s, possible addresses linked to each individual, possible property ownership, possible relatives, and possible corporate affiliations.

We obtained the separation agreement between the County and Harry VandeVelde, former Care Facility Administrator, and we interviewed the Assistant County Prosecutor who accompanied Mr. VandeVelde to his office after hours, to clean out his office.

We interviewed Mr. VandeVelde on May 5, 1999, to obtain further understanding of how the County first established its relationship with Bay Pharmacy.

#### RESULTS

1. The lowest bid received for the disposable underpads was from a company other than Pharmed Corporation. However, as documented on the summary bid sheet, the contract was not awarded to this company because of unfavorable test results. The Care Facility was not able to provide us with specific documentation to support this claim. Based on the bid specifications and the bid proposals, the lowest bidder met the size specifications and exceeded requirements for absorbency. In lieu of awarding the contract to the lowest bidder because of allegedly unfavorable testing results, Pharmed Corporation, as the second lowest bidder, received the contract.
2. The contract files for the gloves did not contain Pharmed Corporation's bid sheet. As a result, we were unable to determine if their product met all bid specifications.
3. The background investigations which we performed on the former Care Facility Administrator and former Director of Nursing provided us with no conclusive evidence to suggest a potential conflict of interest existed.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

4. The settlement agreement between the County and Mr. VandeVelde dated October 13, 1998, provided him with full pay and benefits, and an irrevocable retirement date of January 31, 1999. The agreement allowed Mr. VandeVelde to retain his keys and other appurtenances of office until January 31, 1999. However, during the time between the settlement and retirement dates, had Mr. VandeVelde required access to non-public areas of the Care Facility, it was required that he be accompanied by the County Prosecutor or his designee.
5. In our interview with the Terri Griffith, Assistant County Prosecutor, she informed us that she accompanied Mr. VandeVelde to his office after hours as part of the settlement agreement for his departure from the County. Ms. Griffith provided us with a list of the items removed from Mr. VandeVelde's office on that night. Our review of that list did not reveal any items other than personal belongings. We questioned Ms. Griffith as to whether any relevant documents could have been photocopied by Mr. VandeVelde on the night he emptied his office. Ms. Griffith replied that possibly other items were copied, but she cannot recall with certainty one way or the other.
6. The contract with Bay Pharmacy was awarded based on the recommendation of Survey Solutions, a consulting company engaged by the County to review all bids received.
7. Mr. VandeVelde informed us the County did not consider costs when awarding the pharmaceutical contract to Bay Pharmacy, because the County used the same bid specifications as were utilized by Cuyahoga County which did not request price quotes from the bidders. He further explained that he first heard of Bay Pharmacy through the Care Facility's business transactions with Pharmed Corporation, since the owners of the two companies are brothers. Additionally, he stated that Bay Pharmacy was on the list of pharmacies used by the County's purchasing department to solicit bids.

### NON-COMPLIANCE CITATIONS

Ohio Revised Code Section 149.351 states all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Sections 149.38 to 149.42. The Care Facility employees did not retain records in accordance with the aforementioned provisions. Care Facility personnel were not able to present us with documents to support the award of disposable glove and underpads contracts. Procedures should be formulated and a filing system should be established that will provide the mechanism for all records created by the Care Facility to be filed and maintained.

### MANAGEMENT COMMENTS

#### Testing of Sample Products

Product samples are occasionally provided by potential vendors in conjunction with bid proposals. The Care Facility obtained and tested various products in relation to the award of contract to Pharmed Corporation, but the Care Facility was unable to provide us with vendor-specific, documented test results of sample products. Failure to adequately document and retain such information results in incomplete contract files. We recommend the Care Facility prepare detailed product sample testing, including the item tested, dates of testing, results of testing (through detailed user comments), and the signatures of each employee performing the testing. Additionally, we recommend these documents be retained in the contract files to support the award of bids.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

### Maintenance of Contract Documents

The award of a contract requires various documents, including, but not limited to, the bid specifications, bid proposals, recommendation of County officials, and the subsequent contract. The Care Facility was unable to provide us with the bid proposal for gloves from Pharmed Corporation. These documents should be retained to support the County's contention that the lowest and best bid was accepted. We recommend the Care Facility retain all documents supporting the request for proposals, bid specifications, bid proposals, recommendation forms, and subsequent contracts in their files.

## SUPPLEMENT TO THE SPECIAL AUDIT REPORT

that Mr. VandeVelde loaned it to a friend. On Wednesday, March 31, 1999, Mr. VandeVolde was indicted for theft in office, a fourth-degree felony. Subsequent to the indictment, Mr. VandeVelde entered a plea, and was sentenced on September 7, 1999 at 11:00 a.m.

### MANAGEMENT COMMENTS

#### Residents Personal Property Inventory

Residents are able to possess any number of personal property items in their rooms. Example of such include televisions, fans, radios, and wall-hanging pictures. The Care Facility is not maintaining documentation of items which are removed from or added to residents' rooms. Although the Care Facility has forms to be completed in the event of the addition or deletion of an item from the residents' rooms, these forms are not being properly reviewed and updated for changes. Failure to maintain accurate inventory of residents' personal property may result in residents' personal items being lost, misplaced, or misappropriated, while going undetected. We recommend the Care Facility strengthen its controls over the documentation of residents' personal property inventory by documenting each time an item is added or deleted from a residents' inventory. This documentation should be approved by a higher-level manager, and kept in the residents' personal property records. Additionally, the Care Facility should stress to relatives that in order to safeguard the residents' personal property, the facility must be notified whenever residents' personal property is either brought into or removed from the residents' rooms. Finally, we recommend the Care Facility perform a periodic inventory of personal items, to ensure the accuracy of the personal property inventory records.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

---

JIM PETKO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

ERIE COUNTY CARE FACILITY  
SPECIAL AUDIT REPORT  
ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

By: *Susan Babbitt*

Date: NOVEMBER 9, 1999