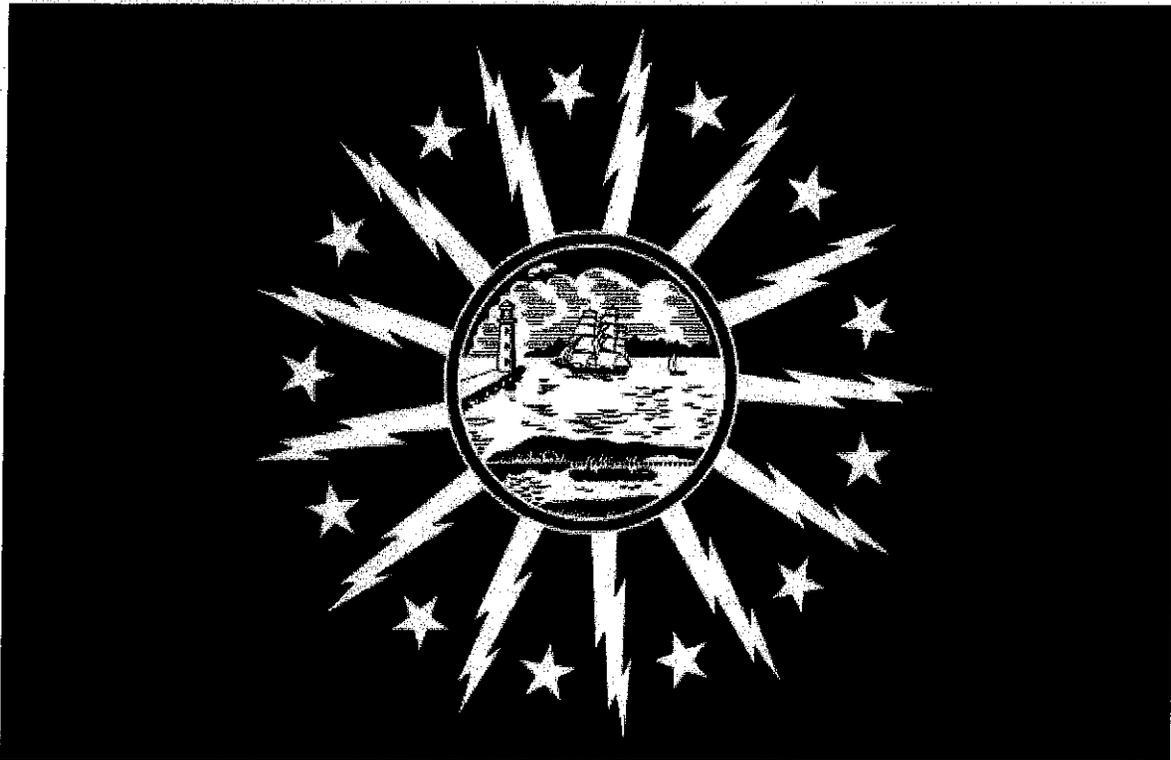


CITY OF BUFFALO
DEPARTMENT OF AUDIT AND CONTROL

FOLLOW UP TO PRESCRIPTION DRUG
REPORT ISSUED IN NOVEMBER 2012

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Overview

This report is a follow up to the November 2012 Department of Audit and Control Report on Prescription Drug Expenses. The City of Buffalo (the "City") is self-funded for prescription drug coverage, meaning the City pays the cost of prescription drugs for all individuals receiving health insurance from the City. It was decided in Fiscal Year ("FY") 2012 to switch to a self-funded prescription drug policy as the cost of the fully insured prescription drug coverage was going to increase by 16% to approximately \$25.2 million. At the time it was estimated the switch to self-funded coverage would save the City \$2 million annually. Actual savings for FY 2012 were \$3.6 million.

<u>Prescription Drug Expense</u>				
	<u>FY 2013</u>	<u>FY 2012</u>	<u>Amount</u> <u>Change</u>	<u>%</u> <u>Change</u>
Cost of Plan	\$ 23,133,535	\$ 21,639,531	\$ 1,494,004	7%
Participants	12,048	12,098	(50)	0%
Claims	269,348	266,718	2,630	1%
Cost per Claim	\$ 86	\$ 81	\$ 5	6%
Cost per Participant	\$ 1,920	\$ 1,789	\$ 131	7%

Prescription drug expense increased 7% in FY 2013. The FY 2013 cost is still lower than the cost of a fully insured policy, which would have been \$25.2 million in FY 2012 and estimated to be even greater in FY 2013. Therefore it appears self-funded coverage saved the City at least \$2 million in FY 2013.

Status of Significant Report Recommendations

The department updates were provided by the former Commissioner of Human Resources, Patricia Folts.

Regular Monitoring

Recommendation: Regular Monitoring of Drug Program to aid in budgeting and controlling costs.

Department Update: Premier Consulting was contracted in FY 2013 to become the City's benefits consultant. They along with Blue Cross/Blue Shield ("BC/BS") have identified targeted benchmarks we should strive to reach and made recommendations that would result in reducing costs of the prescription drug plan. The following recommendations were made:

1. **Increase use of Generic Drugs** - Premier Consulting suggested a benchmark generic dispensing rate of 79.4%; the City of Buffalo generic dispensing rate is approximately 72%. BC/BS estimated that getting to the benchmark generic dispensing rate would save the City \$1 million annually.

2. **Increase Co-pays** - Premier Consulting suggested a benchmark member share of drug costs of 20%. The City's member share is 8.3% for the POS plan and 3% for the Traditional plan. Moving to the benchmark would reduce the City expense by approximately \$2 million annually.
3. **Obtain Stop Loss Insurance** - The nature of prescription self-funding leaves the City at risk for costs associated with catastrophic illnesses. A strategy for limiting this exposure is the purchase of stop-loss insurance. Stop-loss insurance pays medical bills in excess of a predetermined amount. The City is in the process of developing a request for proposal which would include stop-loss insurance.
4. **Preferred Pharmacy** - Currently plan participants can choose any pharmacy to fill prescriptions. By entering into a preferred pharmacy agreement the City can achieve savings when members fill prescriptions at pharmacies included in the agreement.
5. **Review Formulary Tiers for all Drugs** - Formulary Tiers are price groupings of drugs. Tier 1 is the lowest cost and lowest copay and is generally comprised of generic drugs. Tier 2 is a mid-range drug cost, mid-range copay. It may include preferred brand name drugs and more expensive generics. Tier 3 includes higher cost brand drugs and higher copays. Improved structuring of drugs in each formulary tiers can result in savings for the City.

Timely Update of Computer System for Personnel Changes

Recommendation: MUNIS, the City's financial software package accounts for payroll and benefit expenses. MUNIS should be up to date with all personnel changes. This will assure that benefits will not continue to be paid when the individual is no longer in the Plan.

Department Update: The former Commissioner of Human Resources had taken the following steps to achieve more timely and accurate update of personnel records.

1. Requested additional reports from Management Information Systems Department and Blue Cross/Blue Shield to assist in updating personnel changes timely.
2. Creation of a duty roster listing all tasks to be performed by the Benefit Department personnel to ensure timely updates for benefit changes.
3. A Timekeeper training course is being developed to inform timekeepers of the importance of providing the Benefits Department with timely updates to personnel changes. The training is scheduled for April 2014.

Auditor Comments

It appears the recommendations from the audit performed in the prior year have been addressed. There still appears to be potential for cost savings that should continue to be explored.