HEALTH INFORMATION DESIGNS

Cost of Dispensing Prescription Drugs in Alabama

Final Report

January 6, 2010

Sponsored by:
The Alabama Medicaid Agency

Survey Developed, Administered and Reported by:
Health Information Designs, Inc.

Contents

Executive Summary

Introduction

The purpose of this summary is to describe the cost associated with dispensing a drug to Medicaid recipients in Alabama and the factors that are predictive of that cost.

Health Information Designs, Inc., on behalf of the Alabama Medicaid Agency (ALMA), administered a Cost of Dispensing (COD) Survey to pharmacies enrolled with Alabama Medicaid.

About Health Information Designs

HID is the nation's premier provider of Health Management Programs to state Medicaid agencies. We provide a wide range of Pharmacy Support Services (PSS), including Drug Utilization Review (DUR), Prospective Drug Utilization Review (ProDUR), Retrospective Drug Utilization Review (RDUR), Prior Authorization (PA), and Academic Detailing and Disease Management Services for 17 state Medicaid programs. States served by HID have total Medicaid expenditures of more than $96 billion, or almost one-third of the nation's $303 billion Medicaid expense. In addition, we also provide Prescription Drug Monitoring (PDM) services to Alabama, Arizona, Louisiana, Minnesota, North Dakota, North Carolina, South Carolina and Vermont.

Methodology

At the time of the survey release, there were 1,357 in-state enrolled pharmacies in the Alabama Medicaid program. Through working with state and national pharmacy associations, it was decided to mail all non-chain pharmacies ("chain" is defined as three or more stores) a survey packet for completion, while chain stores requested one designated representative to receive the survey for completion for his/her representative stores. A total of 657 non-chain pharmacies were mailed surveys, while chain designees were sent surveys representing 698 total chain pharmacies.

On April 14, 2008, survey packets[1] (containing the survey, instructions for completing the survey and a letter from Alabama Medicaid) were mailed to the 657 non-chain pharmacies. Pharmacies were given the option of returning their completed surveys by mail or completing their surveys online at a site developed and maintained by HID. A total of 290 surveys were submitted, either by mail or online. A small number of submissions were duplicates (completed online and also mailed to HID); these duplicates were removed from the survey database to ensure that there was only one response per pharmacy.

The designated representative from each chain pharmacy was sent a copy of the survey, instructions for completing the survey, a letter from Alabama Medicaid, and an Excel spreadsheet suitable for submitting via e-mail. Chain pharmacies opted to have one representative complete information for all stores and submit responses via e-mail. HID received responses representing 495 pharmacies that were identified as part of a chain.

A preliminary analysis of COD data was performed, and a data verification process was initiated to confirm the reliability of survey data. A COD was computed for every pharmacy (chain and non-chain) and sorted from the highest to lowest. The verification sample was chosen from outlier pharmacies (both high and low) and a random sample from the middle 80% of COD figures. The sample included chain and non-chain pharmacies.

Following this sample analysis, representatives from selected chain pharmacies convened at HID's office in Auburn, Alabama with appropriate financial documentation, and verification audits were performed. Non-chain pharmacies were sent a letter by certified mail notifying them that they had been selected for the verification process, and were provided a list of requested documentation. HID's Academic Detailers made appointments with the pharmacies and collected the requested data. Pharmacies that refused to participate in the verification process had their data removed from the survey database. The verification process was completed in December, 2008, and the validity of COD survey data was confirmed.

Once the verification process was complete, the final number of usable surveys was 705. This represents 52% of the total 1,357 in-state enrolled pharmacies at the time of the survey. Of these surveys, 210 were submitted by non-chain pharmacies (which represents 32% of respondent non-chains), and 495 were submitted by chain pharmacies (representing 71% of respondent chains).

In addition to the verification of data submitted by pharmacies, HID took the additional step of having the surveys statistical analysis verified by a second statistician. This statistician, a faculty member in the Department of Mathematics and Statistics at Auburn University, performed an independent review of the survey design, response sample, and statistical analysis and concluded that the findings resulting from the AL COD are a reliable depiction of the cost to Alabama's pharmacies to dispense a Medicaid prescription.

Results

For all pharmacies returning a survey, regardless of variables, the unweighted cost of dispensing a prescription was as follows:

	Number	Mean	Median	Standard Deviation	Minimum	Maximum
All Pharmacies	705	$12.97	$11.10	$7.24	$2.01	$53.32

When the analysis was performed to exclude outliers (the top 10% and bottom 10% of results), the cost of dispensing was as follows:

	Number	Mean	Median	Standard Deviation	Minimum	Maximum
All Pharmacies	569	$11.78	$11.11	$3.58	$6.76	$22.52

Four variables proved to be predictive of results:

- Total prescription volume
- Time in location
- Chain/non-chain pharmacies
- Facility ownership

Total prescription volume was, by far, the most predictive variable. The larger a pharmacy's overall volume of business, the lower the cost to dispense each individual prescription. Time in location was predictive in that the longer a pharmacy had been open, the lower the mean and median cost to dispense a prescription. It was also predictive whether a pharmacy was a part of a chain. Chain pharmacies, because of higher overhead associated with administration and property values, tended to have an overall higher cost to dispense each prescription. Finally, facility ownership was also predictive with the cost to dispense rising with facility ownership or renting from an unrelated party.

In making a final recommendation to ALMA, HID took into account the fact that pharmacies participating in Alabama Medicaid are almost equally distributed between chain and non-chain pharmacies, yet the rate of participation in the survey was much higher for chain than for non-chain pharmacies. When the survey results were weighted to more accurately reflect the distribution between chain and non-chain pharmacies participating in ALMA, the results were as follows:

	Weighted Mean	Weighted Median
All Pharmacies	$12.46	$10.63
Middle 80%	$11.22	$10.64

Recommendation

As a result, HID recommends to ALMA that the cost to dispense a prescription in the State of Alabama be established at $10.64.

Cost of Dispensing Study Methodology

Overview

Health Information Designs, Inc. (HID) was engaged by the Alabama Medicaid Agency (ALMA) to conduct a survey to determine the cost to dispense prescription drugs for Medicaid recipients in the State of Alabama.

ALMA's parameters for the study were to obtain a sample size robust enough to be representative of the totality of pharmacies participating in the Alabama Medicaid program. Additionally, ALMA required that the survey instrument be developed to account for the costs associated with the dispensing of prescription drugs (e.g., overhead costs associated with personnel, facilities, store operations, preparing and dispensing prescriptions, and other professional services necessary for the dispensing of prescription drugs).

Survey Development

In developing the Alabama COD survey, HID:

- Analyzed prior cost of dispensing studies performed by Medicaid agencies in other states, as well as national studies, to assure that the instrument developed would accurately measure the costs associated with dispensing prescription drugs
- Worked closely with ALMA to determine the variables to be measured in the survey and to determine the best method for survey distribution and data collection
- Developed a draft version of the survey instrument
- Met with representatives from state and national pharmacy associations to verify that the survey instrument was understandable to pharmacists, to develop comprehensive instructions for completing the survey, and to determine the best methods of distribution and collection of surveys for chain and non-chain pharmacies in Alabama
- Established with ALMA and pharmacy associations the dates and methods for survey distribution and collection
- Developed an online survey
- Printed and mailed copies of the COD survey and survey instructions to every non-chain pharmacy registered with ALMA
- Developed a spreadsheet version of the survey to be used by representatives of chain pharmacies responsible for providing survey information for multiple pharmacy locations
- Developed the statistical model for analyzing the survey data and determining a statewide cost to dispense prescription drugs

Distribution and Collection of Surveys

At the time of the survey release, there were 1,357 in state-enrolled pharmacies in the Alabama Medicaid program. Through working with the state and national pharmacy associations, it was decided to mail all non-chain pharmacies ("chain" defined as three or more stores) a survey packet for completion, while chain stores requested one designated representative to receive the survey for completion for his/her representative stores. A total of 657 non-chain pharmacies were mailed surveys, while chain designees were sent surveys representing 698 total chain pharmacies.

On April 14, 2008, survey packets[1] (containing the survey, instructions for completing the survey and a letter from Alabama Medicaid) were mailed to the 657 non-chain pharmacies. Pharmacies were given the option of returning their completed surveys by mail or completing their surveys online at a site developed and maintained by HID. A total of 290 surveys were submitted, either by mail or online and 260 surveys from independent pharmacies were included in the preliminary data analysis.[1]

Completed surveys were initially requested to be submitted by May 18, 2008; however, that deadline was extended to May 31, 2008. To ensure the highest possible level of compliance, completed surveys were accepted until July 1, 2008.

Chain drugstores were sent copies of the survey, instructions for completing the survey, a letter from Alabama Medicaid, and an Excel spreadsheet suitable for submitting via e-mail. Chain drugstores opted to have one representative complete information for all stores and submit responses on an Excel spreadsheet via e-mail. HID received responses representing 495 pharmacies that were identified as part of a chain (comprising three or more stores).

Surveys completed online were entered directly into the COD database. Information was reviewed for obvious errors and omissions and, where necessary, the individual completing the survey was contacted and asked to clarify or provide the correct information.

Surveys mailed to HID were entered into the COD database via the online survey. Each entry was checked to verify that the data entry was accurate and complete, and the system confirmation number was written on each survey document to verify that the information from that survey was entered successfully into the system. Information was reviewed for obvious errors and omissions and, where necessary, the individual completing the survey was contacted and asked to clarify or provide the correct information.

Spreadsheets completed by chain pharmacies were submitted directly to HID via electronic transmission and incorporated into COD database. Information was reviewed for obvious errors and omissions and, when necessary, the individual completing the spreadsheet was contacted and asked to clarify or provide the correct information.

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[1] A number of returned surveys could not be used because of missing or unintelligible data. HID made every attempt to contact pharmacies to request missing data or to verify information that was problematic (e.g. the square footage of the pharmacy sales area was larger than the square footage for the entire sales area). Pharmacies that supplied or corrected their data were included in the analysis.

Verification of Survey Data

In order to assure that the data collected in the COD survey was valid, HID instituted a procedure to verify that the data collected accurately depicted the overhead and other related costs associated with dispensing prescription drugs and did not include the ingredient costs for the drugs dispensed.

A preliminary COD was computed for every pharmacy (chain and non-chain) and sorted from the highest to lowest. A verification sample was chosen from outlier pharmacies (both 10% high and 10% low), and a random sample was selected from the middle 80% of COD results. The sample included chain and non-chain pharmacies. Representatives from selected chain pharmacies convened at HID's office in Auburn, Alabama with appropriate financial documentation and a verification audit was performed. Non-chain pharmacies were sent a letter by certified mail notifying them that they had been selected for the verification process, and were provided a list of requested documentation. HID's Academic Detailers made appointments with the pharmacies selected for verification and collected the requested data. The data was then returned to HID by overnight delivery (for tracking purposes). Pharmacies that refused to participate in the verification process had their data removed from the survey database.

HID checked the verification documents submitted against the survey data for each pharmacy or chain selected for verification. If a discrepancy was found (significant discrepancies were rare), the pharmacy was contacted and asked to clarify the discrepancy. Any changes made to survey responses during the verification process were corrected in the COD database. It should be noted that the verification process convincingly established that the COD surveys were completed in good faith and with accurate financial and pharmacy data.

The verification process was completed in December 2008 and confirmed the validity of COD survey data. Once the verification process was complete, the final number of usable surveys was 705, representing 52% of the total 1,357 in-state enrolled pharmacies at the time of the survey. 210 surveys were submitted by non-chain pharmacies (representing 32% of respondent non-chains), and 495 were submitted by chain pharmacies (representing 71% of respondent chains).

In addition to the verification of the data submitted by pharmacies, HID took the additional step of having the survey's statistical analysis verified by a second statistician. The second statistician, a faculty member in the Department of Mathematics and Statistics at Auburn University, performed his review of the survey design, response sample, and statistical analysis and concluded that the findings resulting from the AL COD are a reliable depiction of the cost to Alabama's pharmacies to dispense a Medicaid prescription.

Cost Elements

Personnel Costs - personnel costs were defined as total salary or wages plus social security, unemployment, worker's compensation, taxes, health insurance, life insurance, bonus, pension fund and profit sharing contributions, professional liability insurance, and similar benefits paid by the pharmacy. Pharmacy owners were cautioned not to enter their net profit as salary, but to use their actually salary draw or to estimate what they would have to pay someone to manage the pharmacy. The percentage of time spent in the pharmacy was used to determine how much of the

personnel costs of each employee should be attributed to the pharmacy department. 100% of pharmacy department personnel costs were used to determine the COD for each pharmacy.

Annual Overhead Expenses - this category was divided into two parts: Prescription Department Expenses and Other Pharmacy-related Costs.

Prescription Department Expenses represented all of the costs directly associated with the pharmacy department, including the costs for dispensing supplies, computer equipment, transmission or switch fees, pharmacy equipment, etc. 100% of prescription department expenses were computed in the COD for each pharmacy.

Other Pharmacy-related Costs included costs associated with the entire facility—not just the pharmacy department. Costs in this category included rent or mortgage payments, utilities, insurance, taxes, etc. Costs in this category were apportioned to the pharmacy department based on figures derived from computing the ratio of sales for the pharmacy department to the store as a whole, or the ratio of square footage of the pharmacy department to the square footage of the facility as a whole. The following table was used to determine the ratio used for each expense category:

Other Pharmacy-related Expenses	Total Expenses
1. Utilities	Square footage ratio
2. Telephone	Sales ratio
3. Trash Collection	Square footage ratio
4. Sewer	Square footage ratio
5. Depreciation (this fiscal year only)	Sales ratio
6. Taxes	
Property	Square footage ratio
Real Estate	Square footage ratio
Payroll	Sales ratio
Sales	None (prescriptions have no sales tax)
Federal Income Tax	Sales ratio
State Income Tax	Sales ratio
Any other taxes (specify type/amt)	Provider tax 100% pharmacy
7. Business License	Sales ratio
8. Building Mortgage	Sales ratio
9. Rent	Sales ratio
Building Rent	Sales ratio
Other (Please Specify)	Sales ratio
10. Repairs/Maintenance	Square footage ratio
11. Cost to Carry Inventory	Sales ratio
12. Insurance	
Liability (Pharmacy)	100% Pharmacy
Property	Square footage ratio
Any Other (please list)	Square footage ratio

Other Pharmacy-related Expenses	Total Expenses
13. Interest Expense on Pharmacy-Related Debt	100% Pharmacy
14. Legal, Accounting and Other Professional Fees	Sales Ratio
15. Bad Debts (this fiscal year only)	Sales Ratio
16. Credit Card Fees	Sales Ratio
17. Operating and Office Supplies (Exclude Rx containers and labels)	Sales Ratio
18. Advertising/Marketing	Sales Ratio
19. Corporate Overhead Expenses	Sales Ratio
20. Travel Expenses	Sales Ratio
21. Security	
Monitoring system	Sales Ratio
Personnel (Contract or dedicated)	Sales Ratio
22. Other Pharmacy Expenses not included elsewhere (please provide list)	Sales Ratio
TOTAL OTHER PHARMACY RELATED EXPENSES	

Analytical Methodology

A multivariate linear regression was used to determine the relationship between several predictor variables and cost of dispensing. Multivariate linear regression is a statistical technique that simultaneously considers the relationships between each variable in a group of predictor variables with a dependent variable. The model attempts to plot a trend line through the data in such a way as to minimize the distance from any single observation in the data to the trend line itself. In other words, the regression identifies the trend line that defines the average relationship between the predictor variables and the dependent variable.

For this analysis, the following variables were considered as potential predictor variables of cost of dispensing.

- The amount of time a pharmacy has been in business at their location
- The number of hours open per week
- Whether the pharmacy is independent or part of a chain
- The physical setting of the pharmacy
- Whether the pharmacy owns its building
- Whether the pharmacy compounds prescriptions
- The pharmacy's geographic setting (rural vs. urban)
- Whether the pharmacy delivers
- Whether the pharmacy dispenses to nursing homes
- Percent of Medicaid prescriptions
- Total number of prescriptions per year

Results

Overview

For all pharmacies returning surveys, regardless of variables, the cost of dispensing was determined to be the following:

Overall Unweighted Results

	Number	Mean	Median	Standard Deviation	Minimum	Maximum
All Pharmacies	705	$12.97	$11.10	$7.24	$2.01	$53.32

When the numbers were adjusted to eliminate the top and bottom 10%, the mean COD was $11.78 and the median was $11.11. The top and bottom outliers had a larger effect on the mean, with the top outliers having a disproportionate impact on the overall mean. The median increased by only $.01, suggesting that the median is a better indicator of the true "mid-point" rather than the mean.

	Number	Mean	Median	Standard Deviation	Minimum	Maximum
All Pharmacies	569	$11.78	$11.11	$3.58	$6.76	$22.52

Variables

Of the variables considered as predictors of cost of dispensing, only four were predictive at levels judged statistically significant:

1. Total prescription volume

2. Time in location

3. Chain or non-chain pharmacy

4. Facility ownership

Total Prescription Volume

Total number of prescriptions for the year was by far the most predictive of the four variables.

Total Prescription Volume

Volume	Number	Mean	Median	Standard Deviation	Minimum	Maximum
43,000 and below	178	$19.39	$18.09	$9.57	$2.54	$53.32
Between 43,000 and 66,000	176	$12.56	$12.38	$4.99	$3.32	$49.90
Between 66,001 and 91,000	177	$10.32	$10.06	$3.96	$2.01	$44.81
Above 91,001	174	$9.49	$9.49	$4.04	$4.64	$52.57

Time in Location

Both the "total volume of prescriptions" and "time in location" variables were negatively related to the cost of dispensing, meaning that as each of these variables increased, cost of dispensing decreased.

Time in Location

Time	Number	Mean	Median	Standard Deviation	Minimum	Maximum
10 years or Less	313	$15.55	$13.15	$8.20	$4.48	$53.32
More than 10 years	392	$10.90	$9.72	$5.57	$2.01	$52.57

This finding indicates that older, more established pharmacies with larger volumes of prescriptions have lower costs associated with dispensing. In other words, fixed costs associated with doing business become cheaper per prescription as more prescriptions are dispensed.

Chain/Non-chain Pharmacies

The third most powerful predictor was whether the pharmacy was independent or part of a chain. Pharmacies that were independent had lower dispensing costs. While chains leverage certain economies of scale, there are increased overhead costs associated with administration and property values.

Independents/Chains

Ind./Chain	Number	Mean	Median	Standard Deviation	Minimum	Maximum
Independents	210	$11.21	$9.48	$7.04	$2.54	$52.57
Chains	495	$13.71	$11.78	$7.20	$2.01	$33.32

Facility Ownership

The fourth and remaining variable predictive of cost of dispensing was whether the pharmacy owned the building where they were located. This variable was positively related to cost of dispensing, meaning that cost of dispensing increased with building ownership or renting from an unrelated party.

Facility Ownership[2]

Own/Rent	Number	Mean	Median	Standard Deviation	Minimum	Maximum
Owns Building	76	$14.61	$11.98	$8.72	$3.32	$52.57
Rents from Related Party	82	$10.51	$9.55	$5.25	$4.48	$44.81
Rents from Unrelated Party	431	$14.43	$12.16	$7.30	$2.54	$53.32

Not surprisingly, this analysis concluded that pharmacies that fill more prescriptions can fill additional prescriptions less expensively. While the amount of time a pharmacy had been in a location, whether the pharmacy was part of a chain or independent, and whether the pharmacy owned their building were also predictive of cost of dispensing. Total prescription volume was, by far, the strongest predictor.

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[2] The number of responses does not add up to 705 because this information was omitted on a significant number of surveys. Every effort was made to contact to the pharmacy to supply the missing information. This information could not be obtained for 116 otherwise usable surveys. The decision was made to include them in the survey analysis because all other information was complete.

Interestingly, the pharmacy's geographic location (rural versus urban) was not significantly predictive of cost of dispensing despite urban pharmacies having a higher cost of dispensing. Also not related was whether the pharmacy compounds prescriptions. Most (71%) of the pharmacies in Alabama that compound prescriptions are part of a chain. Since chains have a higher cost of dispensing compared to independent pharmacies, further testing to compare chains that compound versus independents that compound would not likely yield different results than those reported. Finally, the level of Medicaid prescriptions dispensed by a pharmacy was not found to be predictive of that pharmacy's cost to dispense prescription drugs. Of the responding pharmacies, 65% dispense less than 10% or less of their total prescriptions to Medicaid patients. The statistical analysis found that this variable was not significant in determining the cost of dispensing for a pharmacy.

Weighted Results

Of the 705 usable responses received in response to the AL COD survey, 495 responses were from chain pharmacies and 210[3] were from non-chain pharmacies. According to ALMA data, the number of chain and non-chain pharmacies registered with Alabama Medicaid is approximate. Weighting the median COD to accurately reflect the distribution of chain and non-chain pharmacies in Alabama produces a median COD of $10.64.

	Weighted Mean	Weighted Median
All Pharmacies	$12.46	$10.63
Middle 80%	$11.22	$10.64

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[3] 290 surveys from non-chain pharmacies were initially submitted. Some surveys were excluded because they were duplicate submissions, had too much data missing to be usable, or because they declined to participate in the verification process. The final number of usable non-chain surveys was 210.

Summary

Health Information Designs recommends that ALMA set its cost of dispensing reimbursement to participating pharmacies at $10.64 per Medicaid prescription filled.

Appendices

Introduction

The following appendices are included in this Cost of Dispensing Final Report:

Appendix	Description
A	Includes: ▪ COD Survey Letter ▪ COD Survey ▪ COD Survey Instructions ▪ COD Survey Follow-up Letter
B	Includes: ▪ Verification Letter ▪ Verification Documentation

Appendix A

Alabama Medicaid Agency

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e-mail: almedicaid@medicaid.alabama.gov
Telecommunication for the Deaf: 1-800-253-0799
334-242-5000   1-800-362-1504

BOB RILEY
Governor

CAROL H. STECKEL, MPH
Commissioner

April 14, 2008

Dear Pharmacy Owner or Manager:

The Alabama Medicaid Agency (ALMA) requests your participation in a survey of Alabama pharmacies regarding their costs to dispense prescription drugs to Medicaid recipients.

ALMA has contracted with Health Information Designs (HID) to conduct a comprehensive survey of Alabama's pharmacies to determine an average cost to dispense Medicaid prescriptions. HID has worked with ALMA and with Alabama Pharmacy Associations to develop a survey instrument designed to produce statistically valid results. We are confident that the results from this survey will enable ALMA to establish an appropriate dispensing fee that is both reasonable to Alabama's pharmacies and responsible to Alabama's citizens.

All pharmacies enrolled in the Alabama Medicaid program within the State of Alabama are being asked to complete this survey. The data gathered from this survey will determine the dispensing fee paid to pharmacies. *It is vitally important that you participate and provide the most comprehensive and accurate data possible.*

In order to accomplish the goal of compiling the most comprehensive data possible, we ask that this survey be completed with information from the most recently completed income tax return (FY 2007 or 2006).

You may complete this survey online via a secure internet connection [see Survey Instructions for exact web address] beginning at 12:01am (Central Time) April 16, 2008, or you may complete the enclosed form and return it in the pre-addressed, postage paid envelope provided in this packet. If your pharmacy is one of several stores under common ownership (e.g. a chain) and you would like to have one person complete the survey for all of the locations in your organization, contact Susan Fillippeli (334.466.3018 or susan@hdisolutions.com) to receive an Excel spreadsheet that may be used to the submit information for each of your locations. All surveys must be completed and submitted (whether electronically or by mail) by midnight, May 18, 2008.
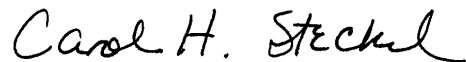
All information submitted in response to this survey will remain confidential. Neither ALMA nor HID will release or otherwise make public any information that names and/or discloses the business, financial, personnel or other information provided by individual pharmacies or chains in the course of completing this survey.

Our Mission - to provide a system of financing health care for eligible Alabamians in accordance with established statutes and Executive Orders.

Should you need assistance in completing the survey, please contact the HID Help Desk at 866.205.4834 (toll-free) from 8am – 8pm (Central Time) M-F. For any other questions you may contact Rob DiBenedetto, Chief Operating Officer for HID at 334.466.3028 or Kelli Littlejohn, Director of Pharmacy Services for ALMA at 334.353.4525.

In addition to the toll-free help desk, the Agency and HID will hold a "Question/Answer" open session on Sunday, April 27, at 2:00pm Central Time at the Alabama Medicaid Agency in Montgomery, Alabama. You may also participate in this session via conference call; the toll-free number will be listed on the Agency website at www.medicaid.alabama.gov (click on Programs/Pharmacy), and will also be distributed to the various Pharmacy Associations the week prior to the session. We encourage your participation in this session or your call to the HID helpdesk if you have questions on the survey.

We at the Medicaid Agency remain committed to a viable pharmacy program that provides access to necessary services throughout our state. We appreciate your assistance in this effort and look forward to our continued work together on behalf of the people we all serve.

Sincerely,

Carol H. Steckel
Commissioner

Kelli Littlejohn, R.Ph., Pharm. D.
Director, Pharmacy Services

Enclosure: COD Survey
               COD Survey Instructions
               Return Envelope

Cost of Dispensing Fee Survey

SECTION I. GENERAL INFORMATION

Name of Pharmacy: _____

Street Address: _____

City: _____ County: _____ Zip Code: _____

Telephone: _____ Fax: _____ Email: _____

Preparer's Name: _____

Position in Organization: _____

Street Address: _____

City: _____ County: _____ Zip Code: _____

Telephone: _____ Fax: _____ Email: _____

1. Information for this survey is based upon information from this pharmacy's
- ☐ **FY 2007 Tax Return (Preferred)**
- ☐ **FY 2006 Tax Return**

2. Pharmacy NPI (National Provider Identifier): _____

3. Total number of prescriptions dispensed during the fiscal year:
   New   _____
   Refill   _____
   Total   _____

4. Percentage of annual prescriptions covered by:
   Alabama Medicaid   _____%
   Other Third Party Payer   _____%
   Cash   _____%

5. Percentage of total annual pharmacy sales that are:
   Prescription (Legend)   _____%
   OTC (Dispensed by Prescription) _____%
   OTC (Sold with no Prescription) _____%

6. Type of Ownership
   - ☐ Individual
   - ☐ Corporation
   - ☐ LLC
   - ☐ LLP
   - ☐ Other (Please Specify) _____

7. a. Ownership Affiliation
   - ☐ Independent (1-3 Units)
   - ☐ Chain (4 or more Units)
   - ☐ Long-term care pharmacy (Pharmacies with > 60% prescriptions for long term care)
   - ☐ Specialty (Pharmacies with > 60% compounding or home infusion prescriptions)
   - ☐ Other (Please specify) _____

   b. If Chain, specify size:
   - ☐ 4-10 Units
   - ☐ 11-25 Units
   - ☐ 26-50 Units
   - ☐ 51-100 Units
   - ☐ 100 or more Units

8. Physical Setting
   - ☐ Medical Office Building
   - ☐ Store Front (Shopping Center)
   - ☐ Separate or Free Standing
   - ☐ Grocery Store/Mass Merchant
   - ☐ Other (Please specify) _____

9. a. Ownership or rental of the pharmacy facility
   - ☐ Pharmacy owns building
   - ☐ Pharmacy rents building from related party (pharmacy owner or family member)
   - ☐ Pharmacy rents from unrelated party

b. If rental, is rent based on:
- ☐ Sales per square foot
- ☐ % of sales
- ☐ Other (Please specify) _____

10. Normal hours of operation
- ☐ Business day M-F only
- ☐ Business day M-F plus weekend hours
- ☐ Business day plus evening hours M-F only
- ☐ Business day plus evening hours M-F and weekends
- ☐ 24 hours

11. Number of years a pharmacy has been at this location _____

12. a. Does the pharmacy provide delivery service for prescription drugs?
- ☐ Yes
- ☐ No

b. If yes, what percent of Medicaid prescriptions is delivered? _____%

c. Is there a charge to customers for this pharmacy's prescription delivery service?
- ☐ Yes
- ☐ No

d. If yes, to 12.c, what is the fee charged to deliver each prescription? _____

13. Which best describes the type of pharmacy provider?
- ☐ Retail
- ☐ Government
- ☐ Long-term Care (Pharmacies with > 60% prescriptions for long term care)
- ☐ Specialty (Pharmacies with > 60% compounding or home infusion prescriptions)
- ☐ Hospital Outpatient
- ☐ Other (Please Specify) _____

14. What percentage of prescriptions dispensed require any type of communication with a third party before dispensing (e.g. prior authorization, DUR, audit time, tamper proof prescription pad issues, call to MD, etc.)?

Medicaid prescriptions: _____%

All other third party prescriptions: _____%

15. a. Do you allow an in-store charge system for prescription sales (excluding store or major credit cards)?
☐ Yes
☐ No

   b. If yes, what percentage of prescription sales is charged in-house?
   Medicaid   _____%
   Non-Medicaid _____%

16. a. Do you dispense prescriptions to nursing home residents?
☐ Yes
☐ Yes, as backup or emergency pharmacy only (less than 20 prescriptions per month)
☐ No (If no, proceed to question 17)

   b. If yes, what is the approximate percentage of total prescriptions that are dispensed to nursing home patients?_____%

17. a. Do you dispense unit dose to nursing homes?
☐ Yes
☐ No

   b. If yes, please indicate which most accurately reflects your situation:
☐ Unit dose (As packaged by manufacturer)
☐ Modified unit dose (Blister packs/bingo cards, etc. prepared by pharmacy)
☐ Both
☐ Other (Please specify) _____

18. a. Does this pharmacy provide home infusion or intravenous therapies?
☐ Yes
☐ No

   b. If yes, what is the dollar amount per year of your sales for home infusion/IV therapies? $_____

19. a. Does this pharmacy compound prescriptions?
☐ Yes
☐ No

   b. If yes, what is the:
   Percentage of all prescriptions that are compounded _____%
   Percentage of Medicaid prescriptions that are compounded _____%

c. Does this pharmacy have special equipment for compounding (e.g. hoods, autoclaves, ovens, filters, etc.)
   ☐ Yes
   ☐ No

d. Percentage of time per month spent:
   Compounding all prescriptions_____%
   Compounding Medicaid prescriptions_____%

20. Does this pharmacy use an electronic system for patient and/or claims management?
   ☐ Yes
   ☐ No

21. Average number of hours pharmacy is open each week: _____

22. Annual store sales volume (gross total sales): $_____

23. Annual prescription sales volume: $_____

24. Square feet of store's total sales area (excluding stock room):   _____sq. ft.

25. Total square feet of the prescription department: _____sq. ft.

26. Total square feet of Rx register and patient waiting areas: _____sq. ft.

27. Square feet of stock room for the entire store: _____ sq. ft.

28. Square feet of stock room used for Rx drugs, files, supplies, containers and patient files: _____ sq. ft.

29. a. Does this pharmacy pay a franchise fee?
   ☐ Yes
   ☐ No

   b. If yes, what is the annual cost of the franchise fee? $_____

SECTION II. Pharmacy Personnel

Instruction: Please fill in all financial information based upon your tax submission for the tax year indicated in Section 1, Question 1. Use the definitions below to complete the information requested for each table in this section.

"Annual salary" refers to the total salary or wage plus social security, unemployment, worker's compensation, taxes, health insurance, life insurance, bonus, pension fund and profit sharing contributions, professional liability insurance, and similar benefits paid by the pharmacy. Amounts for part-year employees (e.g. floaters) should not be annualized. For pharmacy owners, please note that this figure is not your net profit from the operations of the pharmacy, but the actual salary you draw or would have to pay someone to manage the pharmacy.

"Percent of time performing professional duties" refers to the time spent in the prescription department dispensing prescriptions, counseling patients, and fulfilling other professional responsibilities directly related to patient care.

1. Total employed pharmacist(s) salary(ies) per year? (This includes all full-time and part-time pharmacists employed in the tax year indicated in Section 1, Question 1).

	Annual Salary	**Percent of Time Spent Performing Professional Duties**
Owner	$	%
Supervising Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%
Staff Pharmacist	$	%

If you have additional staff pharmacists, please attach a separate page noting their annual salary and the percent of time fulfilling professional duties and label it "Section 2, Question 1, cont'd."

2. Annual salary or gross wages of certified pharmacy technicians, registered pharmacy technicians, interns/externs and clerks.

	Annual Salary	**Percentage of Time in Rx Department***
Certified Technician	$	%
Certified Technician	$	%
Certified Technician	$	%
Certified Technician	$	%
Certified Technician	$	%
Registered Technician/Clerk	$	%
Registered Technician/Clerk	$	%
Registered Technician/Clerk	$	%
Registered Technician/Clerk	$	%
Pharmacy Clerk	$	%
Intern/Extern	$	%
Intern/Extern	$	%
Intern/Extern	$	%
Intern/Extern	$	%
Intern/Extern	$	%
Other (Please Specify)	$	%
Other (Please Specify)	$	%

This includes gathering patient information, entering prescriptions, preparing prescription drugs, presenting prescriptions to patients, ringing up payment for prescriptions, completing third-party forms, etc.

If you have additional certified or registered technicians, clerks or interns/externs, please attach a separate page noting their position, annual salary and the percent of time fulfilling duties in the Rx department and label it "Section 2, Question 2, cont'd."

3. a. Annual gross wages of janitorial personnel or the fee paid to a cleaning service:
$ _____

   b. Percentage of time involved in this activity in prescription department: _____%

SECTION III. ANNUAL OVERHEAD EXPENSES

Instruction: Please fill in all financial information based upon your tax submission indicated in Section 1, Question 1.

A. PRESCRIPTION DEPARTMENT	TOTAL EXPENSES
1. Rx Computer Expenses	
2. Rx Claim Transmission Charges, Switching Fees, FSA Tracking, etc.	
3. Rx Supplies (e.g. vials, bottles, labels, blister cards, etc.)	
4. Pharmacy Equipment (printers, pill counters, Baker Cells, compounding, etc.)	
5. Association Dues and Mandatory Educational References and Publications	
6. Pharmacist/Technician Continuing Education Costs	
7. Pharmacist/Technician Licensure /Certification Costs	
8. Pharmacy Licensure Costs	

9. Account Receivable Expenses
    a. Medicaid
    b. All other
	a._____
	b._____

10. Shrinkage	
11. TP Adjustments (write offs)	
12. Inventory Maintenance	
13. Warehouse Expense	
14. Shipping Expenses	
15. Prescription Delivery Expenses	
16. Other Prescription Department Expenses (Please provide attachment with details)	
TOTAL PRESCRIPTION DEPARTMENT EXPENSES	

B. OTHER PHARMACY RELATED EXPENSES	TOTAL EXPENSES
1. Utilities	
2. Telephone	
3. Trash Collection	
4. Sewer	
5. Depreciation (this fiscal year only)	
6. Taxes	
Property	
Real Estate	
Payroll	
Sales	
Federal Income Tax	
State Income Tax	
Any other taxes (specify type/amt)	
7. Business License	
8. Building Mortgage	
9. Rent	
Building Rent	
Other (Please Specify)	
10. Repairs/Maintenance	
11. Cost to Carry Inventory	%
12. Insurance	
Liability (Pharmacy)	
Property	
Any Other (please list)	
13. Interest Expense on Pharmacy-Related Debt	
14. Legal, Accounting and Other Professional Fees	
15. Bad Debts (this fiscal year only)	
16. Credit Card Fees	
17. Operating and Office Supplies (Exclude Rx containers and labels)	
18. Advertising/Marketing	
19. Corporate Overhead Expenses	
20. Travel Expenses	
21. Security	
Monitoring system	
Personnel (Contract or dedicated)	
22. Other Pharmacy Expenses not included elsewhere (please provide list)	

TOTAL OTHER PHARMACY RELATED EXPENSES	

Declaration: I declare that the information contained in this report, to the best of my knowledge and belief, is accurate, complete and in agreement with the related Books or Federal Income Tax return for this pharmacy.

Preparer Signature: _____

Date: _____

Alabama Medicaid Agency

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BOB RILEY
Governor

CAROL H. STECKEL, MPH
Commissioner

Pharmacy Dispensing Fee Survey Instructions

The Alabama Medicaid Agency (ALMA) has commissioned this survey to determine the current cost to dispense Medicaid prescriptions for outpatient pharmacies operating in Alabama.

It is vitally important that each pharmacy take the time necessary to complete the survey as thoroughly and accurately as possible. The higher the level of participation, the more comprehensive and accurate the data generated. Your individual responses will remain completely confidential. The results of the survey will be used by ALMA as a means to determine the appropriate level of dispensing fee. Health Information Designs, Inc. (HID) is distributing the survey and will conduct the analysis. This is a one time opportunity for pharmacies to provide information to contribute to the accuracy of the ultimate outcome.

This survey is designed to address the cost of dispensing drugs only and does not cover the actual ingredient costs of a prescription.

You have until May 18, 2008 to submit your response. Responses may be submitted online at http://alcod.hidinc.com or by completing and returning the enclosed survey form in the prepaid envelope provided.

- One survey should be completed for each pharmacy under common ownership, either online or by mail, but not both.
- Login information for completing the survey on-line: User ID: COD-ENTRY; Password: AL2008COD. Once logged in, you will be directed to a secure server to enter your survey information.
- Responses should be based on the service location (store address) rather than billing location for each pharmacy.
- Please have the financial records from your most recent annual tax filing, including salary and benefit information, available to help you complete each survey.
- When completed, click the "Submit" button at the end of the survey. Once you hit submit you will not be able to go back and change any answers, so please plan to enter information for the on-line survey in one sitting.
- Additional instructions for completing the survey on-line will be available once you login to the survey website.
- If you have questions about a particular question you may call the HID Help Desk at 866.205.4834 (toll-free) between 8:00 am and 8:00 pm M-F. Or, you may send questions via email to CODhelp@hidinc.com. Messages received outside the normal Help Desk hours will be returned at the beginning of the next business day (or at the time indicated in the message).

Our Mission - to provide a system of financing health care for eligible Alabamians in accordance with established statutes and Executive Orders.

All information submitted in response to this survey will remain confidential. Neither ALMA nor HID will release or otherwise make public any information that names and/or discloses the business, financial, personnel or other information provided by individual pharmacies or chains in the course of completing this survey.

In order to be in compliance with CMS requirements, ALMA is required to validate the information submitted. ALMA will work with HID to identify a representative sample of responses for validation. Participation in this survey constitutes permission for ALMA and/or HID to request and obtain documentation for information provided in each survey response.

Again, it is critical that you provide the most accurate and complete information possible.

Section I. General Information

Pharmacy Information: Name of pharmacy, address, etc., should be completed for the <u>service location</u> (not billing address) for each pharmacy under common ownership. Please complete all the information requested, especially the zip code for the pharmacy location. This will be used to identify the pharmacy as urban or rural for analysis purposes. Also include the name and contact information (if different from that of the pharmacy location) of the person responsible for preparing and submitting the survey.

1. Select the tax return year you are using to provide information for this survey. Information from your 2007 tax return is preferred if available. Our analysts will compare information from pharmacies using 2006 data to information from pharmacies using 2007 data to determine if the use of an inflation multiplier is warranted for the 2006 data. If so, we will use the 2007 data to determine the appropriate multiplier and apply it to adjust the 2006 data.

2. Your National Provider Identifier (NPI) is a unique identifier for all Alabama Medicaid providers.

3. Please provide the total number of prescriptions dispensed during the fiscal year, broken down by "New" and "Refill." The total should equal the number of new and refill prescriptions for the year.

4. Please provide the percentage of your annual prescriptions covered by Medicaid, other third party providers such as private insurance or Medicare Part D, and those that are paid by cash.

5. Please provide the percentage of total annual pharmacy sales that were for Legend, OTC filled by prescription and OTC drugs not filled by prescription.

6. Identify the type of ownership for the pharmacy. If it is other than Individual, Corporation, LLC, or LLP please specify the exact type of ownership in the space provided.

7. a. Please identify the ownership affiliation for this pharmacy using the definitions below:
- Independent—1-3 pharmacies under common ownership
- Chain—4 or more pharmacies under common ownership
- Long-term care pharmacy—60% or more of the prescriptions filled in this pharmacy are for long-term care facilities.
- Specialty—60% or more of the prescriptions filled in this pharmacy are compounded or for home infusions.
- Other—please specify if this pharmacy's ownership affiliation does not fit into one of the categories above.

b. If this pharmacy is part of a chain, please select the option that best describes the total number of pharmacies owned by this chain.

8. Please select the designation that best describes the physical setting for this pharmacy. If this pharmacy's physical setting does not match the designations provided, please select "Other" and specify in the space provided.

9. a. Please select the option that best describes the ownership or rental of the pharmacy facility.

b. If this pharmacy is a rental, please indicate whether the rent is based on sales per square foot, percentage of sales, or another arrangement. If other, please specify.

10. Please indicate this pharmacy's normal hours of operation using the following definitions:
- Business Day—Pharmacy is open during what would be considered normal weekday business hours (between 7:00 am and 6:00 pm)
- M-F—Monday through Friday
- Weekend Hours—Pharmacy is open at any point on Saturday and/or Sunday
- Evening Hours—Pharmacy is open after 6:00 pm, but closes on a daily basis
- 24 hours—Pharmacy is open 24 hours per day.

For example, a pharmacy open M-F from 8 am – 10 pm would select option 3, "Business day plus evening hours M-F only." A Pharmacy open from 7 am – 5 pm seven days a week would select option 2, "Business day M-F plus weekend hours."

11. Please provide your best estimate of the number of years a pharmacy has been located at this address. This question refers to any pharmacy under any name or ownership.

12. Please indicate whether this pharmacy provides a delivery service for prescription drugs. If you answer yes, please indicate what percentage of your deliveries is for Medicaid prescriptions, whether you charge a fee for delivery, and, if yes, the cost per prescription for deliveries. If you answer no to question 12.a, proceed directly to question 13

13. Please indicate the option that best describes the type of provider for this pharmacy.

14. Please indicate the percentage of Medicaid and other third party prescriptions filled by this pharmacy that require communication with a third party in order to adjudicate the claim and/or fill the prescription. This would cover communications such as prior authorizations, DUR, calls to MDs, audit time, and issues with tamper proof prescription pads, among others.

15. a. Please indicate whether this pharmacy has an in-store charge system for prescription sales (this does not include credit card purchases). An in-store system typically refers to the system used by some small and/or independent pharmacies to allow their customers to wait until the beginning/end of the month to pay for their prescriptions and/or their co-pays.

   b. If this pharmacy has an in-store charge system, please estimate the percentage of Medicaid and non-Medicaid prescriptions that are charged on the in-store system.

16. a. Please indicate whether you dispense prescriptions to nursing home residents using the following definitions:
   - Yes—you regularly dispense prescriptions to nursing home patients as part of your normal business.
   - Yes, as backup or emergency pharmacy only—you dispense prescriptions to nursing home patients, but only in an emergency or as a backup for another pharmacy. Select this option if you dispense less than 20 prescriptions to nursing home patients per month.
   - No—you do not dispense prescriptions to nursing home patients.

   b. If you selected either "yes" option for 16a, please indicate the approximate percentage of prescriptions that are dispensed to nursing home patients.

17. a. Please indicate if you dispense any type of unit dose to nursing homes.

   b. If you answered "yes" to 16 a, above, please indicate the type of unit dose using the definitions below:
   - Unit dose—this is dispensed as packaged by the manufacturer.
   - Modified unit dose—these are blister packs, bingo cards or other unit doses that are packaged in this pharmacy.
   - Other—please select this option if you dispense a unit dose option other than the two defined above.

18. a. Please indicate whether this pharmacy provides home infusion or intravenous therapies.

   b. If you answered yes to 17 a, please indicate the annual dollar amount for this pharmacy in sales from home infusion/IV therapies.

19. a Please indicate whether this pharmacy compounds prescriptions. If you answer yes, please complete sections b, c, and d of this question. If you answer no, proceed to question 19.

b. If this pharmacy compounds prescriptions please provide your best estimate for the percentage of all prescriptions filled at this pharmacy that are compounded as well as the percentage of Medicaid prescriptions filled at this pharmacy that are compounded.

c. Please indicate whether this pharmacy has special equipment for compounding. By special equipment, we mean equipment such as hoods, ovens, autoclaves, filters or other equipment that is dedicated to compounding functions. If this pharmacy only compounds occasionally (e.g. mixing Magic Mouthwash or similar), answer no to this question.

d. Please provide your best estimate for the percentage of time this pharmacy spends each month compounding all prescriptions and the percentage of time spent compounding Medicaid prescriptions.

20. Please indicate whether this pharmacy uses an electronic (computer) system for maintaining patient records and/or claims management.

21. Please indicate the average number of hours this pharmacy is open each week.

22. Please provide the annual volume (gross total sales) for all store sales at this location.

23. Please provide the annual volume for all prescription sales at this location.

24. Please provide the square footage of the total sales area for this location. This number should exclude stock, office and employee break/locker areas.

25. Please provide the total square footage of the prescription department for this location. This includes the entire area for the Rx register, patient waiting areas, OTC sales area, and all prescription stock and/or storage areas.

26. Please provide the total square footage for the Rx register and patient waiting areas for this location.

27. Please provide the total square footage of all stock rooms for the entire store.

28. Please provide the square footage of the stock room used for Rx drugs, supplies, containers and patient files. This should include any refrigerated areas of the stock room used to store Rx drugs and/or supplies.

29. a Please indicate whether this pharmacy pays a franchise fee as part of a franchise organization (e.g. Medicine Shoppe, Cardinal Health).

b. If yes, please indicate the franchise fee paid for the FY year selected in Question 1.

Section II. Pharmacy Personnel

In order to answer this section of the survey it is important that you have information regarding personnel expenses for pharmacists, technicians/clerks, interns/externs, and janitorial staff available to you. Please use the following definitions in completing this section of the survey:

Annual Salary: refers to the total salary or wage plus social security, unemployment, worker's compensation, taxes, health insurance, life insurance, bonus, pension fund and profit sharing contributions, professional liability insurance, and similar benefits paid by the pharmacy. Amounts for part-year employees (e.g. floaters or relief) should not be annualized. For pharmacy owners, please note that this figure is not your net profit from the operations of the pharmacy, but the actual salary you draw or would have to pay someone to manage the pharmacy.

Percent of time performing professional duties: refers to the time pharmacists spend in the prescription department dispensing prescriptions, counseling patients, performing remittance report reviews, and fulfilling other professional responsibilities directly related to patient care.

Percent of time in Rx Department: refers to the time technicians/clerks and interns/externs spend gathering patient information, entering prescriptions, preparing prescription drugs, presenting prescriptions to patients, ringing up payment for prescriptions, completing third-party forms, etc.

Owner: supervising pharmacist is also the owner of this pharmacy.

Supervising Pharmacist: pharmacist manager and/or supervisor of the pharmacy department who is not the pharmacy owner.

Staff Pharmacist: pharmacists who are neither the owner nor the supervising pharmacist. This should include pharmacists who fill "relief" or "floater" positions.

Certified Pharmacy Technician: technicians that have PTCB or other certification.

Registered Technician/Clerk: refers to technicians/clerks who are registered with the State of AL, but do not have PTCB certification.

Pharmacy Clerk: refers to personnel who may perform duties in the pharmacy department (cash register, stocking, etc.) but who are not certified or registered as technicians.

Intern/Extern: refers to students from an accredited school of pharmacy working in this pharmacy to fulfill requirements towards graduation and/or licensing.

Janitorial Personnel: refers to personnel who performing cleaning services for this pharmacy but have no responsibilities for professional pharmacy duties as would be performed by a pharmacist, technician/clerk, or intern/extern.

Other: Any other personnel working in the pharmacy department and not covered under any of the descriptions listed (e.g. delivery personnel). Please provide a brief description of the role and duties for each employee listed under "Other."

1. Please provide the annual salary information and the percentage of time spent performing professional duties for each pharmacist employed at this pharmacy location using the definitions above. Part year pharmacists (e.g. relief or floater) should be included, but only for the actual salary expense to this pharmacy (in other words, their salaries should not be annualized) during the fiscal year. If you have additional pharmacists, please attach a separate page noting each pharmacist's annual salary and percent of time fulfilling professional duties and label it "Section II Question 1 cont'd."

2. Please provide the annual salary information and percentage of time spent in the Rx department for each certified technician, registered technician/clerk, and intern/extern employed by this pharmacy during the fiscal year used for this survey. If you have additional certified or registered technicians, clerks or interns/externs, please attach a separate page noting their position, annual salary and the percent of time fulfilling duties in the Rx department and label it "Section II Question 2 cont'd." The purpose here is to capture all of the personnel costs for employees who work in the pharmacy department. If you have employees who do not meet the definitions provided, but work in the prescription department please list their costs under "Other" and attach a brief description of the employee's role and duties.

3. a. Please provide the total annual salary for your janitorial personnel or the fee you pay for a cleaning service.

     b. Please provide your best estimate of the percentage of time that this pharmacy's janitorial personnel or cleaning service spends in the prescription department.

Section III. Annual Overhead Expenses

You will probably need to gather information from tax forms and/or from your accounting software or inventory records to complete the information in this section. While we recognize that this will involve time and effort on your part, it is critical to determining an accurate and demonstrable Cost of Dispensing (COD) through this survey.

Pharmacies registered as Alabama Medicaid providers have a unique opportunity to provide ALMA and CMS with information that can be used to determine whether an increase in the COD fee is warranted and if so, how much of an increase is necessary to allow pharmacies to recoup their dispensing costs to Medicaid recipients. In order to make the most accurate determination possible of the current COD Medicaid prescription drugs, it is imperative that we determine all of the overhead costs incurred by pharmacies in dispensing a prescription drug for a Medicaid recipient.

Prescription Department Expenses (based on the FY identified in Section I, Question 1)

Please provide the annual costs for each of the items identified below.

1. Rx Computer Expenses—this involves cost of computers, software, licensing fees, internet access, etc. for the prescription department only.

2. Rx Claim Transmission Charges, Switch Fees, FSA tracking—gate/switch fees paid to transmit claims to third party payers for adjudication, tracking costs associated flexible spending accounts or cafeteria plans, etc.

3. Rx Supplies—vials, bottles, labels, blister cards, etc. These are the consumable supplies that enable this pharmacy to fill and dispense prescriptions. Provide the total cost of all Rx supplies.

4. Pharmacy Equipment—printers, pill counters, Baker Cells, compounding equipment, refrigerators, etc. This category is for non consumable equipment that enables this pharmacy to fill and dispense prescriptions.

5. Association Dues and Mandatory Educational References and Publications—total annual costs for any association dues paid by this pharmacy for its pharmacists and/or technicians and interns/externs. Also covers all mandatory educational references and publications required by the state licensing board.

6. Pharmacist/Technician Continuing Education Costs—total annual cost to this pharmacy for continuing education costs required by the State to maintain pharmacist/technician licenses.

7. Pharmacist/Technician Licensure Certification Costs—total annual cost to this pharmacy for fees paid to acquire or renew licenses and/or certifications mandated by the State for pharmacists and technicians.

8. Pharmacy Licensure Costs—annual total cost to license this pharmacy facility (facility only and not personnel).

9. Account Receivable Expenses—annual cost to this pharmacy to cover the difference between the time a prescription is dispensed and the time payment is received from Medicaid and all other third party payers. Cost should be broken down to indicate Medicaid receivable expenses and receivable expenses from all other third party payers (e.g. private insurance, Medicare Part D, etc.)

10. Shrinkage—annual cost to this pharmacy to cover loss due to theft, breakage, spoilage, or any other loss of drugs and/or supplies that have been purchased but cannot be used to dispense prescriptions.

11. TP Adjustments (write offs)—annual cost to this pharmacy for accounts receivable payments from individuals or third party payers that cannot be collected.

12. Inventory Maintenance—annual cost to this pharmacy to assure that pharmacy inventories are tracked, maintained, and ordered.

13. Warehouse Expense—annual cost to this pharmacy to store supplies and/or equipment in a warehouse facility.

14. Shipping Expense—annual cost to this pharmacy to have pharmacy supplies and/or equipment shipped to store location. This category is only for actual shipping costs paid by or charged against this pharmacy (e.g. shipping charges charged against a specific location by the central administration of a chain drugstore).

15. Prescription Delivery Expense—if this pharmacy answered "yes" in Section 1, Question 12, please provide the annual cost to this pharmacy to deliver prescription drugs. This should include vehicle costs and costs associated with any special equipment for delivering prescriptions. Salary and benefits for delivery personnel should be included in Section II, B under "Other."

16. Other Prescription Department Expenses—annual cost to this pharmacy of any other prescription department expenses (excluding costs for prescription ingredients). Please provide an attachment listing the expense and the annual cost to the pharmacy and label it "Section III Question 14."

Other Pharmacy Related Expenses

Unless otherwise indicated, use your costs for your entire store or facility to provide the information requested in this section. We will determine the portion to be considered pharmacy overhead based on the percentage of pharmacy square footage (including pharmacy storage) for this particular facility. Some pharmacy locations may not incur costs for all categories listed. If that is the case indicate a $0 cost for that category. All answers should be based upon the FY identified in Section I, Question 1.

1. Utilities—annual costs to this facility for electricity, natural gas, water, propane, heating oil or other utilities.
2. Telephone—annual costs to this facility for telephone service
3. Trash Collection—annual cost to this facility for trash collection
4. Sewer—annual cost to this facility for sewer services
5. Depreciation—depreciation costs for this financial year only
6. Taxes—please indicate the annual cost to this facility for the following taxes:
    a. Property
    b. Real Estate
    c. Payroll
    d. Sales
    e. Federal Income Tax
    f. State Income Tax
    g. Any other taxes (e.g. municipal tax, business tax, etc.) Please specify

7. Business License—the total fee this store paid to obtain county and/or municipal business licenses.
8. Building Mortgage—if this facility pays a mortgage on the building, please list the annual cost here.
9. Rent—if this facility is rented, please list the annual cost as "Building Rent." If this pharmacy incurs other rental costs please identify the type and indicate the annual expense as "Other." Do not include pharmacy equipment rental as that should have been listed as part of # 4 in Section III A.
10. Repairs/Maintenance—annual cost to this pharmacy facility for repairs or maintenance of the property and or major equipment (e.g. roofs, refrigerators, flooring, etc.)
11. Cost to Carry Inventory—the annual cost to this pharmacy for carrying inventory. This is typically expressed as a percentage of inventory value.
12. Insurance—annual cost to this pharmacy for the pharmacy's liability insurance (excluding staff liability insurance; that is covered in the annual salary information in Section II.), property insurance, or other building or facility insurance.
13. Interest Expense on Pharmacy-Related Debt—annual interest costs for debt related to this pharmacy facility.
14. Legal, Accounting and Other Professional Fees—annual cost to this pharmacy for outside legal, accounting or other professional administrative services.
15. Bad Debts—enter the total debts that became worthless in whole or in part during the fiscal year used for this survey.
16. Credit Card Fees—annual cost to this pharmacy for credit card merchant fees.
17. Operating and Office Supplies—annual cost to this pharmacy for general office and business supplies (e.g. paper, pens, envelopes postage, etc). This excludes pharmacy supplies such as vials, labels, blister packs, etc.
18. Advertising/Marketing—annual cost to this pharmacy for advertising and/or marketing expenses.
19. Corporate Overhead Expenses—Annual cost charged to this pharmacy to maintain central administration functions for pharmacies that are part of a chain, hospital, or other institution).
20. Travel Expenses—annual costs for travel directly related to pharmacy operations and functions (e.g. relief pharmacist travel, travel to attend courses/seminars required to maintain licensure or certification, etc.)
21. Security—annual cost to this pharmacy for a monitoring system and/or security personnel costs (whether contract or dedicated in-house).
22. Other Pharmacy Expenses—annual cost for any other overhead expense not included on this survey. Please provide an attachment listing the expense and the annual cost to the pharmacy and label it "Section III b Question 23."

Declaration: The preparer identified in the Section I: General Information should sign on the line provided or through the on-line digital signature for those completing the survey on-line or via spreadsheet.

Tax Form Reference Guide

You may refer to the following lines on your tax forms to assist you in providing information for this survey. Some lines refer to schedules that itemize expenses (e.g. expenses for utilities or Rx supplies are to be itemized on a schedule attached to support the deduction taken for line 26 on form 1120). Others are categories that combine expenses (e.g. Taxes and Licenses are the same line on tax forms), and you may have to consult your accounting software or books to break down the amounts for each specific category.

Item	1040C	1065	1120	1120S
Utilities	25	20	26	19
Depreciation	13	16a	20	14
Taxes	23	14	17	12
Rent—Building	20b	13	16	11
Repairs and Maintenance	21	11	14	9
Insurance (facility liability or property)	15	20	26	19
Insurance (employee benefits--to calculate employee annual salary)	14	19	24	18
Interest Expense on Pharmacy Related Debt	16	15	18	13
Pension and profit sharing plans (employee benefits—to calculate employee annual salary)	19	18	23	17
Legal, Accounting and Other Professional Fees	17	20	26	19
Dues and Publications	27	20	26	19
Bad Debts (this fiscal year only)		12	15	10
Telephone	25	20	26	19
Operating and Office Supplies (Excluding Rx containers, labels, etc.)	18 22	20	26	19
Advertising and Marketing	8	20	22	16
Rx Computer Expenses	27	20	26	19
Rx Claim Transmission Charges and Switching Fees	27	20	26	19
Rx Supplies (Vials, bottles, labels, blister cards, etc.)	27	20	26	19
Pharmacy Equipment (purchased or rented/leased)	27 or 20a	20 or 13	26 or 16	19 or 11
Wages and Salaries	26	9	13	8
Credit Card Fees	27	20	26	19
Travel Expenses	24	20	26	19
Licenses	23	14	17	12

Alabama Medicaid Agency

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BOB RILEY
Governor

CAROL H. STECKEL, MPH
Commissioner

April 30, 2008

Dear Pharmacy Owner or Manager:

This is a friendly reminder regarding a Cost of Dispensing Survey sent to you with a due date of May 18, 2008. ***If you have not completed and submitted this survey, please do so at your earliest possible convenience.***

Your participation is essential to ensure proper recognition of the professional services provided to Medicaid recipients. Information gathered by this survey will be used to provide the Alabama Medicaid Agency and our Pharmacy Advisory Committee with up-to-date information on the costs incurred by Alabama's pharmacies to dispense prescription drugs to Medicaid recipients. This is a one-time opportunity to provide valuable input on an issue of vital importance to pharmacies. You can complete and return the survey sent to you in our initial mailing, or you can go online at http://alcod.hidinc.com to fill out and submit your survey (User ID: COD-ENTRY, Password: AL2008COD).

All information collected through this survey will remain <u>confidential</u>. Neither Medicaid nor HID will release, to CMS or any other entity, or otherwise make public any information that names and/or discloses the business, financial, personnel or other information provided by individual pharmacies or chains in the course of completing this survey.

Should you have any questions about the survey, or need another copy, please contact Kelli Littlejohn, Medicaid Director of Pharmacy Services at 334.353.4525 or Susan Fillippeli, Communication Specialist for HID at 334.466.3018.

As many of you know, there is significant activity on the federal and state level regarding drug ingredient costs. With your help, we have a unique opportunity to work together to separate drug ingredient costs from the cost of providing professional services by our pharmacists. Now is the time for us to leave a positive legacy to the future of Medicaid and the pharmacy profession.

Thank you for your participation.

Sincerely,

Carol H. Steckel
Commissioner

Kelli Littlejohn, Pharm. D
Director, Pharmacy Services

Appendix B

Alabama Medicaid Agency

501 Dexter Avenue
P.O. Box 5624
Montgomery, Alabama 36103-5624

www.medicaid.alabama.gov
e-mail: almedicaid@medicaid.alabama.gov
Telecommunication for the Deaf: 1-800-253-0799
334-242-5000   1-800-362-1504

BOB RILEY
Governor

CAROL H. STECKEL, MPH
Commissioner

October 29, 2008

<mark>[Address Block/MAIL MERGE HERE]</mark>

<mark>Dear [Name/MAIL MERGE HERE]:</mark>

Thank you for your submission earlier this summer on the Alabama Medicaid Cost of Dispensing (COD) survey. Health Information Designs (HID), the company contracted for the COD survey, received responses from over 680 pharmacies, representing approximately 50% of the enrolled pharmacy providers. We recognize the survey was a time consuming process, and the Agency would like to extend our appreciation for your information. As we are entering the last phase of the survey process, your assistance is greatly needed for survey validation purposes.

The verification process is a requirement by the Center for Medicare and Medicaid Services (CMS) to ensure the survey results are valid for the purposes of supporting any potential changes to the dispensing fee and State Plan. In a random and outlier sampling, you have been selected to assist Alabama Medicaid in the verification process for the Alabama COD survey.

Attached to this letter you will find a list of documentation needed to verify the accuracy of the information you provided in the survey submitted to HID. This information will be used for verification purposes only; if there is any discrepancy between your completed survey and the verification documentation, HID will contact you to clarify which information should be used in the final COD analysis.

We are aware that we are asking for sensitive data that is vital to your business. To maintain confidentiality of that data HID is taking the following steps:

- Documentation will be collected November 3 through November 14 by HID's Academic Detailers. HID will call to make an appointment for an Academic Detailer to collect your documentation at a specific date and time. Every effort will be made for the appointment to be made at a convenient time.
- The information you provide will be placed into a sealed envelope, labeled with your pharmacy's name and address and mailed to HID by registered mail or via an overnight delivery service such as UPS or FedEx (at no charge to the pharmacy).
- Your information will be opened by Susan Fillippeli or HID personnel designated by her and used only for the purpose of verifying the information provided in your survey.

Our Mission - to provide a system of financing health care for eligible Alabamians in accordance with established statutes and Executive Orders.
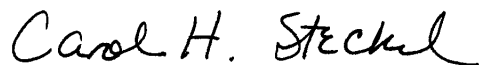
- Financial data will not be revealed for individual pharmacies and documentation will be kept until such time as CMS approves the Alabama Medicaid State Plan. At such time all financial documents will be destroyed in a secure manner. All data from pharmacies that decline to participate in the verification process will be removed from the survey data base. Please note the names of pharmacies that decline to participate will be provided to state pharmacy associations for coordination.
- Financial documents from pharmacies selected for verification will be checked against the completed survey for that pharmacy and any adjustments will be noted in the survey data for that pharmacy. **No punitive action will be sought against pharmacies showing a discrepancy in the information submitted on their survey and their financial documents. The sole purpose of this process is to provide assurance to CMS that the data submitted is accurate.**

As stated before, we have a unique opportunity to work together through our CODS and State Maximum Allowable Cost (SMAC) program to separate drug ingredient costs from the cost of providing professional services by our pharmacists, once and for all recognizing the contributions pharmacists make to the health of our recipients. Now is the time for us to leave a positive legacy to the future of Medicaid and the pharmacy profession.
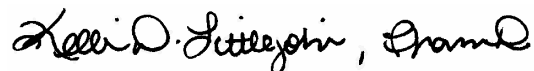
If you have any questions about the verification process, please do not hesitate to contact Susan Fillippeli at HID (334) 466-3018 or Kelli Littlejohn at the Alabama Medicaid Agency at (334) 353-4525.

Again, thank you for your participation in the COD survey and in the verification process.

Sincerely,

Carol H. Steckel
Commissioner

Kelli D. Littlejohn, Pharm. D.
Director of Pharmacy

Verification Documents

Thank you for agreeing to assist Alabama Medicaid and HID in the verification process for the AL COD Survey. This process is for verification purposes only and is being performed to assure CMS that survey results are valid for the purposes of supporting any changes to the State Plan.

If you have any questions about this information, please call Susan Fillippeli at 334.466.3018 (office) or 334.744.0836 (cell).

In order to verify the information in your survey, we will copies of the documentation listed below. Please submit copies and not original documents for verification.

Section I: General Information:

Documentation to show the total number of prescriptions dispensed during the fiscal year used to complete your survey (question 3).

Documentation to show % and/or # of prescriptions for the year used to complete your survey for (question 4):

      Alabama Medicaid
      Other Third Party Payers
      Cash

Annual Sales and/or Income report to document total annual store sales and total annual prescription sales (questions 22 and 23).

Documentation for sq. footage figures reported for (questions 24-28). This can be from assessment documents for property tax or a diagram of store footprint and departments.

Documentation of franchise fees (if any) paid for the fiscal year used to complete your survey (question 29).

Section 2: Pharmacy Personnel

The following may be used to support the data listed in Section 2 (Pharmacy Personnel)

W2 Forms for employees listed on survey to document salaries, Social Security and Medicare paid to or on behalf of employees listed in your survey. Please redact names and social security numbers for security purposes.

--OR--

Salary and Benefits summary from bookkeeping program to show what you paid for each employee who worked in the pharmacy to cover:

> Wages
> Employer portion of Social Security and Medicare contributions
> Worker's Compensation Insurance
> Health Insurance Premiums (if provided)
> Life Insurance Premiums (if provided)
> Retirement Benefits (pension/profit sharing/401k, etc.)
> Professional Liability Insurance (if provided)
> Any other employee benefits provided by the employer

Again, please redact names and personal information such as social security numbers.

Section 3: Annual Overhead Expenses

If you used any of the following tax forms to provide data for your survey please, please provide a copy of the tax form along with any schedules or supporting documents used to compile the information for your survey.

You may refer to the following lines on your tax forms to assist you in providing information for this survey. Some lines refer to schedules that itemize expenses (e.g. expenses for utilities or Rx supplies are to be itemized on a schedule attached to support the deduction taken for line 26 on form 1120). Others are categories that combine expenses (e.g. Taxes and Licenses are the same line on tax forms), and you may have to consult your accounting software or books to break down the amounts for each specific category.

Item	1040C	1065	1120	1120S
Utilities	25	20	26	19
Depreciation	13	16a	20	14
Taxes	23	14	17	12
Rent—Building	20b	13	16	11
Repairs and Maintenance	21	11	14	9
Insurance (facility liability or property)	15	20	26	19
Insurance (employee benefits-- to calculate employee annual salary)	14	19	24	18
Interest Expense on Pharmacy Related Debt	16	15	18	13
Pension and profit sharing plans (employee benefits—to calculate employee annual salary)	19	18	23	17
Legal, Accounting and Other Professional Fees	17	20	26	19
Dues and Publications	27	20	26	19

Bad Debts (this fiscal year only)		12	15	10
Telephone	25	20	26	19
Operating and Office Supplies (Excluding Rx containers, labels, etc.)	18 22	20	26	19
Advertising and Marketing	8	20	22	16
Rx Computer Expenses	27	20	26	19
Rx Claim Transmission Charges and Switching Fees	27	20	26	19
Rx Supplies (Vials, bottles, labels, blister cards, etc.)	27	20	26	19
Pharmacy Equipment (purchased or rented/leased)	27 or 20a	20 or 13	26 or 16	19 or 11
Wages and Salaries	26	9	13	8
Credit Card Fees	27	20	26	19
Travel Expenses	24	20	26	19
Licenses	23	14	17	12

--AND/OR—

Income and Loss statements showing all expenses for the fiscal year used to complete your survey.

--AND/OR—

Any other documentation you have that verifies any expense listed on any line in your survey.