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Management Advisory - Workers' Compensation Compound Drug Costs

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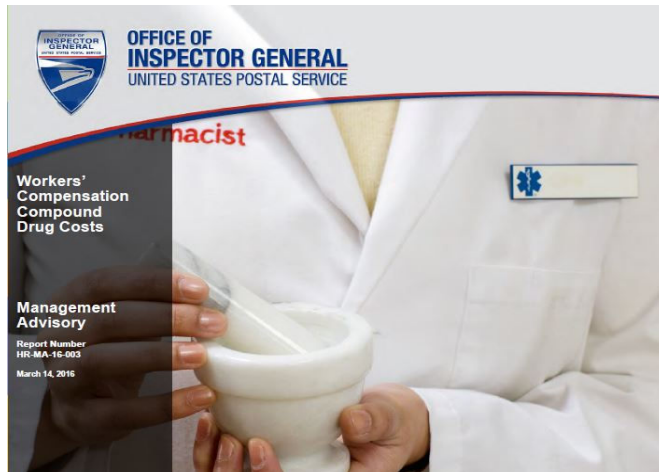


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Background

Enacted in 1916, the Federal Employees' Compensation Act (FECA) provides medical, compensation, death, and vocational rehabilitation benefits to civilian federal employees who sustain injuries or disease. In fiscal years (FYs) 2014 and 2015, FECA provided over \$1 billion in annual workers' compensation benefits to U.S. Postal Service workers.

The U.S. Department of Labor (DOL) Office of Workers' Compensation Program (OWCP) administers the FECA for the Postal Service and the federal government, including costs for medical treatment and drugs. The Postal Service reimburses the DOL for benefits paid out for a chargeback year (CBY) starting from July of the preceding year to June of the current year. The Postal Service pays about 39 percent of the federal government's total workers' compensation administrative expenses.

OWCP allows charges for compound drugs, which are created when licensed pharmacists, physicians, and others acting under the supervision of licensed pharmacists combine, mix, or alter ingredients of drugs to tailor them to individual patients. The Food and Drug Administration (FDA) does not monitor or approve compound drugs, or test their effectiveness or safety.

Our objective was to assess the Postal Service's worker's compensation compound drug costs.

What The OIG Found

The Postal Service's workers' compensation compound drug costs escalated to over \$98.7 million for CBY 2015, a \$68.6 million increase over CBY 2014. During the same period, the Postal Service's administrative expenses for compound drugs increased to \$5.1 million, a \$3.6 million increase. The costs for compounds have continued to escalate. For the first 6 months of CBY 2016 (July 2015 through December 2015), the Postal Service has incurred \$85.7 million in compound drug costs, with another \$71 million forecasted through the end of the year. These unprecedented increases were due to the higher costs of compound drugs, the rising number of compound drug prescriptions, and fraud.

Generally, compound drugs are more costly than other drugs. In 2012, the National Council on Prescription Drug Programs permitted pharmacies to separately bill for each ingredient in a compound drug. Subsequently, more pharmacies began compounding drugs, which created shortages in ingredients and increased the cost. In CBY 2015, the total number of Postal Service employees with compound drug prescriptions increased to 50,204 — nearly three times the number in CBY 2011.

In response to the dramatic increase in compound drug costs nationwide, various government agencies and private entities began to examine these costs and implement best practices for managing them. The U.S. Department of Defense evaluated these costs and made an alarming discovery: Doctors were prescribing and charging for compound

drugs without seeing patients. In a massive workers' compensation scheme in California, doctors were paid to prescribe compound drugs that patients did not need. In one case, a 5-month-old baby died after coming in contact with a compound transdermal cream prescribed for his mother.

In 2015, TRICARE, the military health insurance program, restricted compound drugs in an effort to curtail fraud, reduce costs, and provide more consistent and safe drugs for its beneficiaries. Similarly, state and private entities have implemented restrictions such as: 1) reimbursement caps on prescriptions, 2) fee schedules for compound drugs, 3) mandatory use of pharmacy benefits managers, 4) formularies (lists of prescription drugs covered by prescription drug plans), and 5) pre-authorizations for payment.

The Postal Service experienced escalated compound drug related costs because the DOL did not implement best practices to manage these costs. As a result, we estimated the Postal Service incurred over \$81.8 million in excessive compound drug costs and nearly \$4.1 million in excessive administrative fees for FYs 2014 and 2015. We also estimated that if the DOL does not implement best practices to control compound drug costs, these costs and the related administrative fees could accumulate to over \$1.2 billion and over \$60.3 million, respectively, over the next 3 years.

Although the Postal Service has expressed that it would like to reduce and better manage compound drug costs, it is limited because it is mandated to use the DOL to handle workers' compensation drug costs. For its part, the DOL has full authority to implement all of the best practices mentioned above. But, the DOL has no incentive to do so, and DOL officials have not been receptive to adopting these or other best practices. In addition, DOL stated if a doctor approves the compound drug they assume it is necessary and will reimburse the costs.

The Postal Service is so concerned about rising drug costs and DOL's inaction that, in October 2015, it requested an adjustment and withheld \$68.6 million in payment for its workers' compensation chargeback bill. According to Postal Service officials, the \$68.6 million represented compound drug cost increases potentially attributable to fraud and abuse that OWCP had a duty to prevent. In December 2015, the DOL denied the Postal Service's request. While Postal Service officials disagreed with the DOL's determination, they paid the outstanding \$68.6 million.

Until the DOL implements best practices to manage drug costs and ensure safe drugs, the Postal Service will continue to incur excessive and unnecessary costs and injured workers could be at an increased risk of harm.

What The OIG Recommends

We recommend the chief human resources officer and executive vice president continue to coordinate with the DOL to identify and implement best practices for controlling compound drug costs and authorizing payments for only FDA approved drugs. In addition, we recommend Human Resources, in coordination with Government Relations, inform and educate Congress on the impact of DOL's failure to address escalating compound drug costs on the Postal Service.

Read full report (<https://www.uspsoig.gov/sites/default/files/document-library-files/2016/HR-MA-16-003.pdf>)

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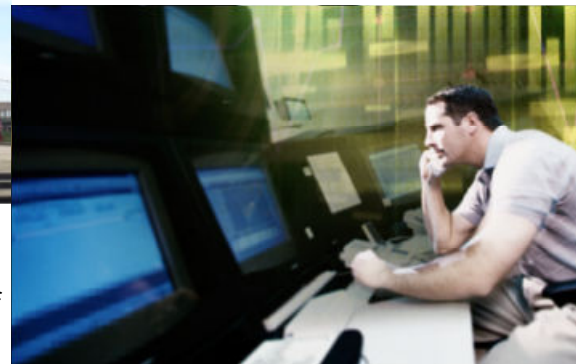
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