



C A L I F O R N I A   D E P A R T M E N T   O F  
**Mental Health**

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December 27, 2002

DMH INFORMATION NOTICE NO.: 02-10

TO: LOCAL MENTAL HEALTH DIRECTORS  
LOCAL MENTAL HEALTH PROGRAM CHIEFS  
LOCAL MENTAL HEALTH ADMINISTRATORS  
COUNTY ADMINISTRATIVE OFFICERS  
CHAIRPERSONS, LOCAL MENTAL HEALTH BOARDS

SUBJECT: SENATE BILL 340, SPEIER, PURCHASE OF PREFERENTIALLY  
PRICED DRUGS

REFERENCE: DMH Information Notice No. 00-05

This notice is to inform counties that Governor Davis signed into law Senate Bill 340 (Speier) on October 8, 2001. Because some counties have recently expressed an interest in purchasing medications at a discounted price, we are sharing this information to assist you in making decisions on this subject.

Current Pharmacy Law authorizes specified non-profit and free clinics licensed by the California State Board of Pharmacy to purchase drugs at wholesale for administration or dispensing to patients registered for care at the clinic. This new statute authorizes a community pharmacy to dispense preferentially priced drugs obtained pursuant to federal law, requires that those drugs be segregated from the pharmacy's other drug stock, and requires that excess drug stock be returned to the distributor.

For counties that do not have available a county pharmacy that can purchase these medications on behalf of the clinics, this bill makes it easier to obtain cheaper medications through a community pharmacy. Enclosed is a copy of the new statute for your information.



**DO YOUR PART TO HELP CALIFORNIA SAVE ENERGY**  
For energy saving tips, visit the DMH website at  
[www.dmh.cahwnet.gov](http://www.dmh.cahwnet.gov)

If you have any questions, please call J. Ruben Lozano, Pharm.D., Deputy Director, Program Compliance, at (916) 654-3576.

Sincerely,

*(Original Signed By)*

STEPHEN W. MAYBERG, Ph.D.  
Director

Enclosures

cc: California Mental Health Planning Council  
Deputy Director, Program Compliance  
Chief, Technical Assistance and Training or blank

## Senate Bill No. 340

### CHAPTER 631

An act to amend Section 4301 of, and to add Sections 4052.5 and 4126 to, the Business and Professions Code, relating to pharmacies.

[Approved by Governor October 8, 2001. Filed with Secretary of State October 9, 2001.]

#### LEGISLATIVE COUNSEL'S DIGEST

SB 340, Speier. Pharmacies.

(1) Existing law, the Pharmacy Law, authorizes a pharmacist filling a prescription order for a drug product prescribed by the trade or brand name to substitute a generic drug product, subject to specified requirements.

This bill would also authorize a pharmacist to substitute a drug product with a different form of medication having the same active chemical ingredients of equivalent strength and duration of therapy as the prescribed drug product, when the change would improve the ability of the patient to comply with the prescribed drug therapy. The bill would require that the patient be notified of the substitution, would not permit a substitution if the prescriber indicates that no substitution may be made, and would not permit a substitution between long-acting and short-acting forms of a medication with the same chemical ingredients or between one drug product and 2 or more drug products with the same chemical ingredients.

(2) The Pharmacy Law authorizes specified nonprofit and free clinics licensed by the California State Board of Pharmacy to purchase drugs at wholesale for administration or dispensing to patients registered for care at the clinic.

This bill would authorize specified entities, as defined by federal law, to contract with a pharmacy to provide pharmacy related services to patients of the entity. The bill would authorize a pharmacy to dispense preferentially priced drugs obtained pursuant to federal law, would require that those drugs be segregated from the pharmacy's other drug stock, and would require excess drug stock to be returned to the distributor. The bill would also require pharmacy records of acquisition and disposition of the drugs to be separate from other records. This bill would exclude covered entities and pharmacies from the requirement that they obtain a wholesaler's license for actions necessary to participate in the drug purchase program.

(3) The Pharmacy Law requires the board to take disciplinary action against any person licensed under the Pharmacy Law who is guilty of unprofessional conduct.

This bill would provide that it is unprofessional conduct for any person licensed under the Pharmacy Law to sell, trade, transfer, or furnish drugs obtained pursuant to federal law to any person a licensee knows or reasonably should know is not a patient of a covered entity, as defined by federal law.

(4) Because a knowing violation of the Pharmacy Law is a misdemeanor, this bill would expand the scope of that crime and thus would impose a state-mandated local program.

(5) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

*The people of the State of California do enact as follows:*

SECTION 1. Section 4052.5 is added to the Business and Professions Code, to read:

4052.5. (a) In addition to the authority allowed under Section 4073, a pharmacist filling a prescription order for a drug product may select a different form of medication with the same active chemical ingredients of equivalent strength and duration of therapy as the prescribed drug product when the change will improve the ability of the patient to comply with the prescribed drug therapy.

(b) In no case shall a selection be made pursuant to this section if the prescriber personally indicates, either orally or in his or her own handwriting, "Do not substitute" or words of similar meaning. Nothing in this subdivision shall prohibit a prescriber from checking a box on a prescription marked "Do not substitute" if the prescriber personally initials the box or checkmark.

(c) Selection pursuant to this section is within the discretion of the pharmacist, except as provided in subdivision (b). The pharmacist who selects the drug product to be dispensed pursuant to this section shall assume the same responsibility for selecting the dispensed drug product as would be incurred in filling a prescription for a drug product using the prescribed form of medication. There shall be no liability on the prescriber for an act or omission by a pharmacist in selecting, preparing, or dispensing a drug product pursuant to this section.



(d) This section shall apply to all prescriptions, including those presented by or on behalf of persons receiving assistance from the federal government or pursuant to the California Medical Assistance Program set forth in Chapter 7 (commencing with Section 14000) of Part 3 of Division 9 of the Welfare and Institutions Code.

(e) When a substitution is made pursuant to this section, the use of the different form of medication shall be communicated to the patient, and the name of the dispensed drug product shall be indicated on the prescription label, unless the prescriber orders otherwise.

(f) This section shall not permit substitution between long-acting and short-acting forms of a medication with the same chemical ingredients or between one drug product and two or more drug products with the same chemical ingredients.

SEC. 2. Section 4126 is added to the Business and Professions Code, to read:

4126. (a) Notwithstanding any other provision of law, a covered entity may contract with a pharmacy to provide pharmacy services to patients of the covered entity, as defined in Section 256b of Title 42 of the United States Code, including dispensing preferentially priced drugs obtained pursuant to Section 256b of Title 42 of the United States Code. Contracts between those covered entities and pharmacies shall comply with guidelines published by the Health Resources and Services Administration and shall be available for inspection by board staff during normal business hours.

(b) Drugs purchased pursuant to Section 256b of Title 42 of the United States Code and received by a pharmacy shall be segregated from the pharmacy's other drug stock by either physical or electronic means. All records of acquisition and disposition of these drugs shall be readily retrievable in a form separate from the pharmacy's other records.

(c) Drugs obtained by a pharmacy to be dispensed to patients of a covered entity pursuant to Section 256b of Title 42 of the United States Code that cannot be distributed because of a change in circumstances for the covered entity or the pharmacy shall be returned to the distributor from which they were obtained. For the purposes of this section, a change in circumstances includes, but is not limited to, the termination or expiration of the contract between the pharmacy and the covered entity, the closure of a pharmacy, disciplinary action against the pharmacy, or closure of the covered entity.

(d) A licensee that participates in a contract to dispense preferentially priced drugs pursuant to this section shall not have both a pharmacy and a wholesaler license.

(e) Neither a covered entity nor a pharmacy shall be required to obtain a license as a wholesaler based on acts reasonably necessary to fully



participate in the drug purchase program established by Section 256b of Title 42 of the United States Code.

SEC. 3. Section 4301 of the Business and Professions Code is amended to read:

4301. The board shall take action against any holder of a license who is guilty of unprofessional conduct or whose license has been procured by fraud or misrepresentation or issued by mistake. Unprofessional conduct shall include, but is not limited to, any of the following:

- (a) Gross immorality.
- (b) Incompetence.
- (c) Gross negligence.
- (d) The clearly excessive furnishing of controlled substances in violation of subdivision (a) of Section 11153 of the Health and Safety Code.
- (e) The clearly excessive furnishing of controlled substances in violation of subdivision (a) of Section 11153.5 of the Health and Safety Code. Factors to be considered in determining whether the furnishing of controlled substances is clearly excessive shall include, but not be limited to, the amount of controlled substances furnished, the previous ordering pattern of the customer (including size and frequency of orders), the type and size of the customer, and where and to whom the customer distributes its product.
- (f) The commission of any act involving moral turpitude, dishonesty, fraud, deceit, or corruption, whether the act is committed in the course of relations as a licensee or otherwise, and whether the act is a felony or misdemeanor or not.
- (g) Knowingly making or signing any certificate or other document that falsely represents the existence or nonexistence of a state of facts.
- (h) The administering to oneself, of any controlled substance, or the use of any dangerous drug or of alcoholic beverages to the extent or in a manner as to be dangerous or injurious to oneself, to a person holding a license under this chapter, or to any other person or to the public, or to the extent that the use impairs the ability of the person to conduct with safety to the public the practice authorized by the license.
- (i) Except as otherwise authorized by law, knowingly selling, furnishing, giving away, or administering or offering to sell, furnish, give away, or administer any controlled substance to an addict.
- (j) The violation of any of the statutes of this state or of the United States regulating controlled substances and dangerous drugs.
- (k) The conviction of more than one misdemeanor or any felony involving the use, consumption, or self-administration of any dangerous drug or alcoholic beverage, or any combination of those substances.



(l) The conviction of a crime substantially related to the qualifications, functions, and duties of a licensee under this chapter. The record of conviction of a violation of Chapter 13 (commencing with Section 801) of Title 21 of the United States Code regulating controlled substances or of a violation of the statutes of this state regulating controlled substances or dangerous drugs shall be conclusive evidence of unprofessional conduct. In all other cases, the record of conviction shall be conclusive evidence only of the fact that the conviction occurred. The board may inquire into the circumstances surrounding the commission of the crime, in order to fix the degree of discipline or, in the case of a conviction not involving controlled substances or dangerous drugs, to determine if the conviction is of an offense substantially related to the qualifications, functions, and duties of a licensee under this chapter. A plea or verdict of guilty or a conviction following a plea of nolo contendere is deemed to be a conviction within the meaning of this provision. The board may take action when the time for appeal has elapsed, or the judgment of conviction has been affirmed on appeal or when an order granting probation is made suspending the imposition of sentence, irrespective of a subsequent order under Section 1203.4 of the Penal Code allowing the person to withdraw his or her plea of guilty and to enter a plea of not guilty, or setting aside the verdict of guilty, or dismissing the accusation, information, or indictment.

(m) The cash compromise of a charge of violation of Chapter 13 (commencing with Section 801) of Title 21 of the United States Code regulating controlled substances. The record of the compromise is conclusive evidence of unprofessional conduct.

(n) The revocation, suspension, or other discipline by another state of a license to practice pharmacy, operate a pharmacy, or do any other act for which a license is required by this chapter.

(o) Violating or attempting to violate, directly or indirectly, or assisting in or abetting the violation of or conspiring to violate any provision or term of this chapter or of the applicable federal and state laws and regulations governing pharmacy, including regulations established by the board.

(p) Actions or conduct that would have warranted denial of a license.

(q) Engaging in any conduct that subverts or attempts to subvert an investigation of the board.

(r) The selling, trading, transferring, or furnishing of drugs obtained pursuant to Section 256b of Title 42 of the United States Code to any person a licensee knows or reasonably should have known not to be a patient of a covered entity, as defined in paragraph (4) of subsection (a) of Section 256b of Title 42 of the United States Code.



SEC. 4. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

