Limited Scope Audit of the Government Employees Health Association, Inc.’s Drug Manufacturer Rebates as Administered by Express Scripts, Inc. for Contract Years 2013 and 2014

Report Number 1H-02-00-18-018
October 18, 2018
EXECUTIVE SUMMARY

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Why Did We Conduct the Audit?

The objective of the audit was to determine whether the Government Employees Health Association, Inc. (Plan) and its Pharmacy Benefits Manager (PBM), Express Scripts, Inc. accurately calculated and returned all applicable drug manufacturer rebates to the Federal Employees Health Benefits Program in accordance with the terms of Contract Number CS 1063, the Plan’s agreement with the PBM, and the PBM’s drug manufacturer agreements.

What Did We Find?

Our limited scope audit of the Plan’s drug manufacturer rebates as administered by the PBM for contract years 2013 and 2014 disclosed no findings pertaining to our review of quarterly rebate guarantees, annual true-up and payments, actual rebates billing and allocation, and rebates never reported.

Accordingly, this final report contains no recommendations.

What Did We Audit?

The Office of the Inspector General has completed a performance audit of the Plan’s drug manufacturer rebates as administered by the PBM. Our audit consisted of a review of quarterly rebate guarantees, annual true-up and payments, actual rebates billing and allocation, and rebates never reported by the PBM for contract years 2013 and 2014. We conducted a fieldwork site visit from February 5 through 9, 2018, at the PBM’s office in Franklin Lakes, New Jersey. Additional audit fieldwork was completed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

Michael R. Esser
Assistant Inspector General
for Audits
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>5 CFR 890</td>
<td>Title 5, United States Code of Federal Regulations, Part 890</td>
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<tr>
<td>Contract</td>
<td>Contract Number CS 1063</td>
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<tr>
<td>CYs</td>
<td>Contract Years</td>
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<td>FEHB</td>
<td>Federal Employees Health Benefits</td>
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<td>FEHB P</td>
<td>Federal Employees Health Benefits Program</td>
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<tr>
<td>NDC</td>
<td>National Drug Code</td>
</tr>
<tr>
<td>HIO</td>
<td>Healthcare and Insurance Office</td>
</tr>
<tr>
<td>LOC</td>
<td>Letter of Credit</td>
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<td>OIG</td>
<td>Office of the Inspector General</td>
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<td>OPM</td>
<td>U.S. Office of Personnel Management</td>
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<td>PBM</td>
<td>Pharmacy Benefits Manager</td>
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<td>PBM Agreement</td>
<td>The Prescription Drug Program Master Agreement between the Plan and the PBM</td>
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<tr>
<td>Plan</td>
<td>Government Employees Health Association, Inc.</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>ABBREVIATIONS</td>
<td>ii</td>
</tr>
<tr>
<td>I. BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>II. OBJECTIVES, SCOPE, AND METHODOLOGY</td>
<td>3</td>
</tr>
<tr>
<td>III. RESULTS OF THE AUDIT</td>
<td>7</td>
</tr>
<tr>
<td>A. QUARTERLY REBATE GUARANTEES REVIEW</td>
<td>7</td>
</tr>
<tr>
<td>B. ANNUAL TRUE-UP AND PAYMENTS REVIEW</td>
<td>7</td>
</tr>
<tr>
<td>C. ACTUAL REBATES BILLING AND ALLOCATION REVIEW</td>
<td>7</td>
</tr>
<tr>
<td>D. REBATES NEVER REPORTED REVIEW</td>
<td>7</td>
</tr>
</tbody>
</table>

REPORT FRAUD, WASTE, AND MISMANAGEMENT
I. BACKGROUND

This report details the results of our limited scope audit of the Government Employees Health Association, Inc.’s (Plan) drug manufacturer rebates as administered by its Pharmacy Benefits Manager (PBM), Express Scripts, Inc. for contract years (CYs) 2013 and 2014. The audit was conducted pursuant to the provisions of Contract CS 1063 (Contract) between the U.S. Office of Personnel Management (OPM) and the Plan; the prescription drug program master agreement between the Plan and the PBM (PBM Agreement); Title 5, United States Code, Chapter 89; and Title 5, Code of Federal Regulations, Chapter 1, Part 890 (5 CFR 890). The audit was performed by OPM’s Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

The Federal Employees Health Benefits Program (FEHBP) was established by the Federal Employees Health Benefits (FEHB) Act, Public Law 86-382, enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for Federal employees, annuitants, and dependents. OPM’s Healthcare and Insurance Office (HIO) has overall responsibility for administration of the FEHBP, including the publication of program regulations and agency guidance. As part of its administrative responsibilities, the HIO contracts with various health insurance carriers that provide service benefits, indemnity benefits, and/or comprehensive medical services. The provisions of the FEHB Act are implemented by OPM through regulations codified in 5 CFR 890.

Pharmacy Benefit Managers are primarily responsible for processing and paying prescription drug claims. The services provided typically include retail pharmacy, mail order, and specialty drug benefits. For drugs acquired through retail, the PBM contracts directly with the approximately 50,000 retail pharmacies located throughout the United States. For maintenance prescriptions that typically do not need to be filled immediately, the PBM offers the option of mail order pharmacies.

The Plan has entered into a contract with OPM to provide health benefit plans, including prescription drug coverage, as authorized by the FEHB Act to Federal employees and retirees. The Plan’s pharmacy operations under the Contract are carried out by the PBM, which is located in Franklin Lakes, NJ.

Part 2, Section 5.7(b) of the Contract includes a provision which allows for audits of the program’s operations. Additionally, part 2, section 1.26(a) of the Contract outlines transparency standards related to PBM arrangements (effective January 2012) that require PBMs to provide pass-through pricing based on the PBM’s cost. Our responsibility is to review the performance
of the PBM to determine if the Plan charged costs to the FEHBP and provided services to its members in accordance with this contract.

The Plan’s pharmacy operations have been audited twice previously. Audit Report No. 1H-02-00-08-004, issued August 14, 2009, covered rebates, payment reconciliation, processing and administration fees, and drug interchange program (no claims review) for contract years 2003 through 2006. Audit Report No. 1H-02-00-08-041, issued September 10, 2009, covered pharmacy benefit payments (claims review) for contract years 2003 through 2007. The prior audit reports did not identify any findings or recommendations.

We communicated the results of our audit to the Plan and the PBM on August 8, 2018. Since our audit concluded that both the PBM and the Plan properly calculated and returned all applicable pharmacy rebates to the FEHBP, we did not issue a draft report.
II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The primary purpose of our audit was to determine whether the Plan and the PBM accurately calculated and returned all applicable drug manufacturer rebates to the FEHBP in accordance with the terms of the Contract, the PBM Agreement, and drug manufacturer agreements.

Specifically, our audit objectives were to determine if:

Quarterly Rebate Guarantees Review

- The quarterly rebate payments were properly calculated in accordance with the rebate guarantee.
- Actual rebates exceeded the rebate guarantee.

Annual True-Up and Payments Review

- Actual rebates were properly compared to the rebate guarantees at the end of the year, and if the end of the year true-up payments were accurately calculated.
- All rebate payments were credited back to the FEHBP.

Actual Rebates Billing and Allocation Review

- Actual rebates were properly billed, collected, and allocated to the Plan in accordance with the drug manufacturer agreements.

Rebates Never Reported Review

- The PBM properly reported and credited all rebates earned by the Plan in comparison to the rebates collected from its book of business.

SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and
conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit included reviews of the quarterly rebate guarantees, annual true-up and payments, actual rebates billing and allocation, and rebates never reported by the PBM for CYs 2013 and 2014. A site visit was conducted from February 5 through 9, 2018, at the PBM’s office in Franklin Lakes, NJ. Additional audit work was completed at our Cranberry Township, Pennsylvania and Washington, D.C. offices.

The Plan is responsible for providing FEHBP members with medical and prescription drug benefits. To meet this responsibility, the Plan reported $ and $ in premium payments in 2013 and 2014, respectively, of which two thirds was paid by the government on behalf of the Federal employees. In addition to the premium payments, program income was also generated from the investment of program funds. From the premiums collected and investment income earned during this time period, the following amounts were disbursed related to prescription drug benefits:

<table>
<thead>
<tr>
<th>Year</th>
<th>Paid Claims</th>
<th>Rebates Invoiced</th>
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<tbody>
<tr>
<td>2013</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2014</td>
<td>$</td>
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In planning and conducting the audit, we obtained an understanding of the PBM’s internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Additionally, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

We also conducted tests of accounting records and other auditing procedures as we considered necessary to determine compliance with the Contract, the PBM Agreement, and applicable Federal regulations. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting the audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.
To determine whether the costs charged to the FEHBP and services provided to its members were in accordance with the terms of the Contract, the PBM Agreement, and applicable Federal regulations, we performed the following audit steps:

**Quarterly Rebate Guarantees Review**

- For each CY, we recalculated the quarterly rebate guarantee by multiplying the total number of brand name drug claims, from the paid claims data maintained in our data warehouse, by the per claim rebate guarantee amounts in the PBM Agreement. We then compared the audited rebate guarantee to the amounts paid by the PBM to determine if the guarantee was properly calculated.

- For each CY, we reviewed the annual rebate reconciliation report to determine if actual rebates were greater or less than the rebate guarantee so that we proceed with the correct rebate review.

**Annual True-Up and Payments Review**

- We reviewed the rebate reconciliation reports to verify that actual rebates were properly compared to the rebate guarantee for each year and that the amounts due to the Plan were properly calculated.

- We reviewed the PBM’s claim invoices to ensure that all rebates and true-up payments were properly credited back to the Plan.

- We traced the amounts from the PBM’s claim invoices and end of the year rebate payments back to the Plans bank statements and Letter of Credit (LOC) account to ensure that the transactions were accurate and supported by documentation.

- We reconciled the LOC draw down amounts reported in the annual accounting statements to OPM’s draw down report for 2013 and 2014 to ensure that the rebates were properly credited back to the FEHBP.

**Actual Rebates Billing and Allocation Review**

- We judgmentally selected a sample of rebate invoices for review to ensure that the rebates were properly billed, collected, and allocated in accordance with the drug manufacturer agreements. Our sample selection was based on all quarterly rebate amounts over $100,000 per National Drug Code (NDC). The sample size was 81

- Using the sample of rebate invoices, we obtained supporting documentation from the PBM’s Integrated Drug Files and manufacturer agreements, and verified data elements from the invoices (Wholesale Acquisition Cost unit price, quantity filled, grid rebate percent, administrative fee rebate percent, price protection rebate percent, and total rebate amount per invoiced rebates statement) to determine if the rebates were properly billed, collected, and credited to the Plan.

- To verify the allocation and quantity filled amounts, we extracted claims data from our data warehouse using SAS Enterprise Guide and then compared the amounts to the invoice totals for the PBM’s book of business to ensure that the proper percentage of rebates were credited to the Plan.

**Rebates Never Reported Review**

- We acquired a summary of all rebates collected by the PBM for its book of business by NDC. Using this summary, we then selected all NDC totals that had rebates in excesses of $100,000 ($100,000 material threshold set by auditors¹). Finally, we compared these NDCs to the rebates credited to the Plan and to the actual claims data to determine if the PBM failed to report or credit any rebates to the Plan. Our review of all rebates over $100,000 that were never reported or credited by the PBM to the Plan included [redacted] NDCs, totaling $[redacted] for 2013, and [redacted] NDCs, totaling $[redacted] for 2014. To complete the review, we requested an explanation from the PBM for all NDCs over $100,000 where the Plan had paid claims but did not receive a rebate.

The samples mentioned above, that were selected and reviewed in performing the audit, were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

¹ We did not select a sample for this step since the universe of rebates collected by the PBM for its book of business was not applicable to the Plan. Instead, we set a material threshold and performed two additional steps to determine all rebates that were not reported to the Plan based on actual claims utilization. The Plan represents less than one percent of the PBM’s book of business so a $100,000 threshold is equal to an average rebate of less than $1,000 for the Plan.
III. RESULTS OF THE AUDIT

A. QUARTERLY REBATE GUARANTEES REVIEW

Our review of the PBM’s rebate guarantee showed that the quarterly rebate payments were accurate in comparison to actual rebates for 2013 and 2014.

B. ANNUAL TRUE-UP AND PAYMENTS REVIEW

Our review found that the PBM properly compared actual rebates to guaranteed rebates and paid the appropriate amount to the Plan at the end of the year for 2013 and 2014. Additionally, we verified that the rebate amounts were properly credited back to the FEHBP by the Plan.

C. ACTUAL REBATES BILLING AND ALLOCATION REVIEW

Our review of the billing and allocation of actual rebates paid to the Plan showed that the PBM properly invoiced, collected, and credited rebates in accordance with the drug manufacturer agreements.

D. REBATES NEVER REPORTED REVIEW

Our review of all rebates collected by the PBM showed that it properly reported and credited rebates that were earned by the Plan.
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          Washington, DC 20415-1100