

**Prescription Benefit Management Audit**

**SPECIFIC FINDINGS REPORT**

**State of Kansas  
Administered by CVS Caremark**

**Audit Periods**

**January 1, 2017 – December 31, 2017**

**Presented to**

**State of Kansas**

**January 30, 2020**

**Prepared by**



***Subcontractor to***



**CLAIM TECHNOLOGIES  
INCORPORATED**



## **PREFACE**

This ***Specific Findings Report*** presents key findings and recommendations from PillarRx Consulting, LLC's (PillarRx), formerly TRICAST, LLC., as subcontractor for Claim Technologies Incorporated (CTI), for its audit of CVS /Caremark (CVS) administration of the State of Kansas' (the State's) pharmacy plan.

These audit findings are based on data and information the State, as the plan sponsor, and CVS, as the Pharmacy Benefit Manager (PBM) provided to PillarRx and their validity relies upon the accuracy and completeness of that information.

The audit was planned and performed to obtain a reasonable assurance that prescription drug claims were adjudicated according to the terms of the contract between CVS and the State as well as the benefit descriptions (summary plan descriptions, plan documents or other communications) approved by the State.

PillarRx is a firm specializing in audit and control of pharmacy benefit plan administration. The statements made by PillarRx in this report relate narrowly and specifically to the overall efficacy of CVS's policies, processes and systems relative to the State's paid claims during the audit period.

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**PillarRx Consulting, LLC**

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## OBJECTIVES AND SCOPE

### Audit Objectives

The objectives of the PillarRx audit of CVS's pharmacy benefit management were:

- To verify that claims were processed in accordance with the pricing terms specified in the contract with CVS;
- To verify that claims adjudicated according to plan provisions;
- To validate that drug manufacturer rebates were correctly calculated and passed through at the Place of Service and to the State;
- To validate the network pharmacy contracts were correctly calculated; and
- To validate that CVS is meeting contractually approved Performance Guarantees.

### Audit Scope

PillarRx's audit encompassed the contracts in force and the pharmacy benefit claims administered by CVS for the audit periods of January 1, 2017 December 31, 2017. The State's population of claims and the total net plan paid (total payment less member coinsurance) during this period was:

	Number of Net Prescriptions	Net Plan Paid
CY 2017	1,176,127	\$82,121,514.34

The audit included the following components.

1. Pricing and Fees Audit
2. Reconciliation of Pricing Guarantees
3. Benefit Payment Accuracy Review
4. Manufacturer Rebate Audit
5. Pharmacy Payment Verification
6. Network Pharmacy Contract Audit

Key findings for each component can be found in the following sections of this report. All work papers and system documentation in support of any finding can be provided to the State upon request.

## KEY FINDINGS

### Pricing and Fees Audit

After verification of the electronic claim data provided by CVS, PillarRx systematically re-priced 100% of prescription drug claims paid during the audit period to determine that:

- Discounts were applied correctly based on the lesser of MAC, Average Wholesale Price (AWP) and Usual and Customary (U&C); and
- Pharmacy dispensing and administrative fees were applied correctly.

Any errors identified in pricing or fees were shared with CVS.

### Reconciliation of Pricing Guarantees

Using the terms of the State contract with CVS, we accumulated all prescription claims by type and distribution method for the period specified in the contract and balanced the total discount savings against the specified minimum discount guarantees. Similarly, all other performance guarantees were mapped against the actual prescription claims as adjudicated during the prescribed contract periods for performance guarantees. This reconciliation included the following contractual guarantees:

- AWP discounts applied for all drugs against third party pricing sources;
- MAC allowance for generic;
- Specialty drug allowance; and
- Dispensing fees.

### Findings and Recommendations

The following tables demonstrate our findings relative to pricing guarantees.

Key	Over Performance <i>&gt; Greater Than Contracted Rates</i>		Acceptable Performance <i>— Same as Contracted Rates</i>		Under-Performance <i>&lt; Less Than Contracted Rates</i>		
<b>Discounts (1/1/2017 – 12/31/2017)</b>							
Component Description	# Claims	Contracted Discount Rate	Actual Discount Rate	Contracted Claim Ingredient Cost	Actual Claims Ingredient Cost	Variance	
Retail Brands	135,905	17.00%	19.65%	\$45,330,446	\$43,884,167	\$1,446,279	>
Retail Generics	843,708	81.25%	79.83%	\$18,033,616	\$19,396,263	(\$1,362,647)	<
Retail Brands 90 day	7,070	20.00%	21.81%	\$3,585,959	\$3,504,840	\$81,119	>
Retail Generics 90 day	92,597	83.25%	86.00%	\$4,263,064	\$3,562,256	\$700,808	>
Mail Generics	11,575	83.25%	84.09%	\$518,806	\$492,832	\$25,974	>
Mail Brands	Excluded from Guarantees						
<b>Total</b>				<b>\$71,731,891</b>	<b>\$70,840,358</b>	<b>\$891,533</b>	<b>&gt;</b>

As shown in the following table, the dispensing fee analysis identified fees were under charged by CVS for 1/1/17 – 12/31/17, which is a plan savings for the State.

<b>Dispensing Fees (1/1/2017 – 12/31/2017)</b>					
<b>Component Description</b>	<b>Contracted Disp Fee</b>	<b># Claims</b>	<b>Total Actual (Collected) Disp Fee</b>	<b>Total Contracted Disp Fee</b>	<b>Total Overage / (Shortfall)</b>
Retail Brands	\$0.60	135,905	\$71,607.35	\$81,669.60	\$10,062.25
Retail Generics	\$0.60	843,708	\$439,583.37	\$506,224.80	\$66,641.43
Retail Brands 90 day	\$0.00	7,070	\$75.10	\$0.00	(\$75.10)
Retail Generics 90 day	\$0.00	92,597	\$1,325.55	\$0.00	(\$1,325.55)
<b>Total</b>		<b>1,079,280</b>	<b>\$512,591.37</b>	<b>\$587,894.40</b>	<b>\$75,303.03</b>

*\*Specialty, Compound, Over the Counter, Retail Usual and Customary, Vaccines, Subscriber, and Coordination of Benefits claims were excluded from all contract guarantees, PillarRx reviewed claims for reasonableness and found no outliers.*

PillarRx was able to verify that CVS is performing better than the discounted rates in all categories except Retail Generics, with an aggregate over performance of \$891,533 and the State was undercharged in dispensing fees by \$75,303.

### **Benefit Payment Accuracy Review**

PillarRx created an exact model of the benefit plan parameters of the State’s pharmacy plan in AccuCAST and systematically re-adjudicated 100% of paid prescription drugs. Benefit plan parameters analyzed included, but were not limited to:

- Age and gender
- Coinsurance
- Day supply maximums
- Excluded drugs
- Prior authorizations
- Quantity limits
- Refill limits
- Zero balance claims

Exceptions that were identified, but could not be explained by PillarRx’s benefit analysts, were provided to CVS for explanation. When adequate documentation was provided to support exceptions were adjudicated correctly, AccuCAST was reset to represent the revised plan parameters and the claims were electronically re-adjudicated again to ensure consistency.

### **Coinsurance**

Coinsurance represented the dollar amount required to be paid by the member when a prescription drug was purchased. Our observations and conclusions relative to coinsurance application are shown in the following charts.

<b>AETNA Plan A - Coinsurance (1/1/2017 – 12/31/2017)</b>	
<b>Total Claims</b>	<b>Coinsurance Collected</b>
29,608	\$362,792.81
<b>BCBS Plan A - Coinsurance (1/1/2017 – 12/31/2017)</b>	
<b>Total Claims</b>	<b>Coinsurance Collected</b>
760,316	\$9,115,231.60
<b>AETNA Plan C HDHP – Coinsurance (1/1/2017 – 12/31/2017)</b>	
<b>Total Claims</b>	<b>Coinsurance Collected</b>
10,143	\$331,219.27
<b>BCBS Plan C HDHP – Coinsurance (1/1/2017 – 12/31/2017)</b>	
<b>Total Claims</b>	<b>Coinsurance Collected</b>
376,060	\$11,999,283.34

PillarRx submitted 55 member numbers to CVS to review the accumulator amounts. \*For the purpose of this audit, the calculated coinsurance amounts are based solely on prescription claim dollars only and therefore we randomly selected members from each plan to review the CVS combined deductible and out of pocket accumulators. The calculated coinsurance amount and variance has been reviewed and is considered acceptable. The below chart demonstrates the actual copays received and the calculated copays received for the 55 sample members.

<b>55 Member Sampling Totals</b>		
<b>Total Claims</b>	<b>Coinsurance Collected</b>	<b>Calculated Coinsurance</b>
2,848	\$347,683.02	\$347,683.02

PillarRx submitted 217 claims to CVS that represented potential exceptions to the coinsurance requirements. CVS was able to provide adequate explanation and documentation for each category of exception, which allowed PillarRx to conclude that most coinsurance amounts were applied correctly. PillarRx agrees with CVS's responses and coinsurance amounts adjudicated according to plan design specifications, for the responses received.

For the claims that adjudicated incorrectly, CVS has provided additional follow-up to the service warranties associated.

1. There was one claim sample for a Mirena claim that was adjudicated incorrectly and overcharged the member. This was the only incorrect Mirena claim and a service warranty added to correct it.
2. CVS added service warranty (77109) for HCR Fluoride that reviewed 195 claims. The sixty (60) cardholders associated with these claims were reimbursed a total of \$765.54
3. There was 1 claim sample for a non-covered/discount medication where the member should have paid 100% but was undercharged. CVS will be adding a service warranty for this error and will provide the additional details as to the number of claims and members affected to the client.



4. There were 3 claims for Plan A – BCBS where the members were charged a 35% copay instead of a 40% copay for Tier 2 preferred brand medications. CVS will be adding a service warranty for this error and will provide the additional details as to the number of claims and members affected to the client.
5. It is noted that the Chronic Care Benefit was not adjudicating correctly, the response provided by CVS states that it was corrected through a service warranty (39043). The client was reimbursed \$95,257.94 in February of 2018.

**Drug Exclusions/Prior Authorizations**

The claim data and documentation provided by CVS allowed PillarRx to confirm that drug exclusions and prior authorizations were administered correctly.

**Administration of Age Rules**

PillarRx found no issues related to age rules.

**Administration of Quantity Limits**

PillarRx found that based on the language in the drug coverage documents provided by CVS, claims are adjudicating within the parameters.

**Manufacturer Rebate Audit**

PillarRx rebate specialists reviewed CVS’s rebate contracts and used proprietary PharmaCAST® software to compare the contract terms to the State’s prescription claims. PharmaCAST reconciled the paid claims data and assessed whether CVS appropriately collected rebates from manufacturers on behalf of the State.

PillarRx went onsite to CVS’s Northbrook, Illinois location to audit the actual manufacturer rebate agreements and amendments for each of the top five pharmaceutical manufacturers against the State’s rebate payment report. We reviewed the following manufacturers:

Manufacturer
Novo Nordisk
Johnson & Johnson
Abbvie
Merck
Astra Zeneca

**Findings and Recommendations**

PillarRx’s Manufacturer Rebate Audit shows that CVS billed the five pharmaceutical manufacturers in conformance with their contracts for the periods under review. PillarRx concludes that CVS

processed and paid rebates to the State in compliance with their contracts for the five pharmaceutical manufacturers audited and their agreement with the State.

### **Performance Guarantees Review**

PillarRx reviewed the Performance Guarantees included in the State's Pharmacy Benefit Services Agreement. PillarRx requested reports from CVS to substantiate their performance levels for each of the measures in the Performance Agreement to determine if CVS had performed at the minimum level required to avoid paying a penalty to the State.

### ***Findings and Recommendations***

All reporting results were reviewed and deemed accurate and consistent with contractual Performance Guarantees for the State. No further review or action is necessary.

### **Pharmacy Payment Verification**

According to CVS, POS rebates calculations can vary over the course of the year. There is no predetermined amount at the NDC level which is why these rebates are unable to be reconciled at the claim level. These rebates are estimated at the point of sale and reconciled annually.

PillarRx is unable to reconcile the POS rebate amount on an individual claim basis but has confirmed that the annual reconciled rebate amount agrees with the minimum guarantee amount provided in the contract.

In addition, PillarRx reviewed 50 remittance samples of pharmacy payments. We received confirmation from the pharmacies that the claim payments received by CVS matched the amount stated in the CVS remittance advice.

### **Conclusion**

PillarRx agrees that the pharmacies received the amount stated by CVS and no additional action is required.

### **Network Pharmacy Contract Audit**

PillarRx reviewed the top 5 chain and 5 non-chain pharmacies utilized by the State network under the CVS agreement.

After reviewing 10 contracts between CVS and the pharmacies, including five chain pharmacies and five independent pharmacies, PillarRx concludes that all parties were compliant with their contracts and were paid in accordance with their contracts. PillarRx reviewed the specific Network contracts with the actual results to provide assurance that the contracts adhere to the discount passed through, with no evidence of any spread pricing or claw back.