THE BURCHFIELD GROUP
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AUDIT STRATEGY CASE STUDIES

The Importance of Having a Multi-Year, Multi-Faceted PBM Audit Strategy

Case Studies Show Financial, Operational, and Other Benefits When Health Plans Use a Multi-Layered, Integrated Approach

Why PBM Audits are Important in Today's Market

In today's increasingly complex pharmacy benefits market and regulatory landscape, the chances are high that your PBM — even with the best intentions and commitment to service delivery — sometimes makes errors that can be costly for your health plan. Other errors can occur due to complex and often-changing benefit designs, placing added financial strains on your plan members or undermining service levels. PBM errors related to data entry, rules application, and reporting in the face of constantly evolving regulations can also significantly raise a health plan's compliance risks.

Your best strategy is to audit your PBM on a regular basis for possible inconsistencies. No matter how large or small your health plan is, conducting audits will help improve your pharmacy operations, ensure compliance, maximize future negotiating leverage with PBMs, enhance member and beneficiary levels of service, and boost your bottom line. Audits help PBMs and health plans work together in closer partnership to determine any differences to improve general operations and service delivery. Ultimately, audits also help inform health plans when seeking out new PBM vendors, in the event irreconcilable differences between the plan and PBM are discovered during the audit process.

Having a PBM Audit Strategy that Goes Beyond Just Pricing and Rebates

While it is generally easy for health plan decision-makers to see the immediate potential monetary benefits of conducting a pricing or rebate audit, it is sometimes harder for health plans to see the benefits of auditing PBMs for performance in other areas where problems often occur, such as in applying benefits criteria correctly, determining eligibility or enrollment status, or applying the correct clinical criteria when processing claims, such as prior authorization or other utilization management rules. However, it is often problems identified in these areas that can alert health plans to problems that are likely occurring in other areas. This can help plans address problems before these snowball into more widespread issues with larger adverse monetary or compliance implications.

For example, during the course of conducting a mock CMS program audit to determine compliance with Medicare requirements, it is not unusual for a health plan to be alerted to specific issues that would justify conducting separate audits in such areas as claims, pricing, or rebates.

Multiple Audits Provide the Big Picture View and Improve Operations

Pharmacy benefits are complex, with many moving parts that are interrelated.

Different types of audits show different views of how a PBM processes claims at different junctures in the transaction: how it applies eligibility rules, how it applies clinical decision-making, and how it applies benefits, pricing or rebate rules.

> Conducting audits that touch across these different areas — and that identify problems or inconsistencies at different junctures — fosters better communication and collaboration across business units.

A good example occurs when a patient goes to the pharmacy and learns that the prescription being filled requires prior authorization. In some organizations, different components of that single transaction (clinical rules, benefits design, claims processing, pharmacy pricing, and formulary rebates) may be "owned" by entirely different business areas, which often do not communicate with each other. Conducting audits that touch across these different areas — and that identify problems or inconsistencies at different junctures — fosters better communication and collaboration across business units. This breaking down of siloes can help your organization improve its overall operations and run as a well-oiled machine.

The following case studies illustrate some of the inconsistencies and problems that different types of PBM audits can uncover. They also offer other valuable lessons on how well conducted audits can benefit health plans and their members.

CASE STUDY

Series of PBM Audits Identify Systemic Issues for Correction, Lead to Significant Monetary Recoveries and Improved PBM Service

SITUATION:

A small northeast regional health plan with a strong member service focus had fallen behind on their PBM oversight activities due to budget shortfalls. Once budgeting finally came through, the plan hired The Burchfield Group to conduct a series of comprehensive PBM audits simultaneously on their commercial and Medicare lines of business to "catch up" on PBM oversight activities.

Audits Conducted:

Pricing audits, rebate audits, eligibility audits, and benefits audits were conducted covering a two-year period for the plan's commercial and Medicare lines of business.

Problems Identified:

The audit revealed that several significant problems that negatively impacted the plan and its members had occurred over several years.

- Pricing audits revealed that a PBM error caused malfunctioning of special sub-network pricing components. This had not only cost the plan tens of thousands of dollars, but also negatively impacted many members' costs on drug products processed at select pharmacies.

REBATE AUDIT

A rebate audit verifies the health plan has received all guaranteed rebate payments. This is done on site at the PBM where 5–10 manufacturer contracts are reviewed in detail. These are reconciled with the PBM contract and invoicing the PBM has provided to the health plan.

PRICING AUDIT

Involves a thorough review and analysis of how the PBM has applied discounts from AWP (or other negotiated drug pricing source) and pharmacy dispensing fees on a per claim or aggregate basis. Used to determine if all drug pricing and discount guarantees stated in the PBM contract have been achieved.

- Rebate audits showed that the PBM had underpaid the plan hundreds of thousands of rebate dollars due to more than a dozen separate systemic issues. Problems identified included the PBM's failure to invoice drug manufacturers for select claims eligible for rebates and/or failure to invoice at the correct rate. Other errors included a PBM systems setup problem that had linked the wrong formulary to claims sent to the manufacturers, resulting in incorrect rebate amounts being paid out. Finally, the audit showed instances where rebate payments to the health plan were less than what the plan had contracted for with the PBM.

- Benefits Audits uncovered PBM errors related to "transition overrides" that the PBM had added to its claims adjudication system. Because these overrides were linked to the incorrect formulary, they resulted in members being charged the wrong copayment amounts at the pharmacy point of sale. As a result, the plan's members collectively overpaid $100,000 in charges.

- An Eligibility Audit revealed that during the period audited, claims were incorrectly processed and paid for 206 members who were outside the benefits eligibility window when the claims occurred, costing the plan about $200,000. The audit determined the cause as mistakes in the eligibility data files generated by the health plan and sent to the PBM. The audit suggested that these errors had occurred for several years prior to the audit, likely causing the plan to have paid out one million dollars or more on ineligible claims.

REVENUE AUDIT

Validates Medicare Part D Employer Group Waiver Plan (EGWP) subsidy payments, and any other CMS payments for members in an EGWP plan managed by a PBM. Determines whether the PBM's reconciliation of EGWP member activity matches the payments received from CMS. Used to determine if any financial liability exists between the plan and CMS, or if any additional payments from CMS to the plan are due. Typically tailored to validate specific concerns (e.g., re-calculation of subsidy payments).

ELIGIBILITY AUDIT

Ensures each prescription claim processes within the correct plan the member signed up for. Ensures all claims processed by the PBM fall within the timeframe in which the member is benefit-eligible. Ensures the PBM maintains a correct, updated record of eligibility parameters.

BENEFITS AUDIT

Identifies whether the PBM has made errors in how member benefits are administered. Such errors often mean that members are being charged incorrect amounts.

CMS MOCK AUDIT

A practice run against the published CMS protocol. Simulates how an actual CMS auditor would review Medicare plan data and identify specific areas where that plan is at heightened risk for being deemed in violation of CMS requirements.

Results and Actions Implemented:

- The health plan recovered tens of thousands of dollars from its PBM (this includes over-payments from the plan and over-payments from the plan's members). The PBM has also begun reimbursing the client for lost rebates for the time period audited. In some cases, this includes member reimbursements.

- Because not all drug manufacturers were subject to the PBM rebate audits conducted, the health plan will likely have The Burchfield Group review these manufacturers' rebates as part of future audits.

- Given the significant monetary impact on the plan's members due to the incorrect copay assessments at point of sale (more than $100,000 due from the PBM), the PBM will work with the plan to determine a member reimbursement schedule.

- Based on the problems identified, the plan's PBM has added more staff to the plan's account management team to help resolve issues going forward. In addition, the plan now intends to resume conducting audits annually.

- Because the audit allowed the client to identify nearly $200,000 in claims paid that were ineligible, the plan is implementing monitoring of PBM corrective action plans, to ensure root causes are addressed to minimize future recurrence.

Key Takeaways:

- Auditing your PBM regularly is important to avoid large-scale systematic errors from going undetected for long periods, which can result in large monetary losses for your plan and your members.

- Conducting regular audits also puts your PBM on notice that your plan is serious about its performance. This will prompt your PBM gives your plan "top priority" to the PBM's best resources and tools to more effectively manage complex pharmacy benefits for both commercial and Medicare lines of business.

CASE STUDY

Client Uses Multi-Audit PBM Strategy, Uncovers Millions of Dollars in Errors on Retiree Claims

SITUATION:

An employer with a large retiree beneficiary population hired The Burchfield Group to conduct a revenue audit over a five-year period related to their Medicare Part D Employer Group Waiver Plan (EGWP) managed by their PBM.

Audits Conducted:

The employer decided to conduct an EGWP revenue and PDE audit after the PBM notified it to expect the Centers for Medicare and Medicaid Services (CMS) to request reimbursement for millions of dollars based on PBM calculation errors. These PBM errors had resulted in incorrect EGWP subsidy financial reporting on prescription drug event (PDE) data submitted to CMS.

In addition to conducting the PBM revenue audit, the client hired The Burchfield Group to conduct benefits, pricing, and rebate audits two years retrospectively to validate the PBM's accuracy and compliance with CMS requirements in these areas.

Problems Identified:

The Burchfield Group identified several areas showing PBM non-compliance with the client's contract terms, as well as non-compliance with CMS requirements — all of which adversely impacted the client financially.

- **Revenue Audit:** The PBM's miscalculated, hence incorrectly reported, financial figures on PDE records submitted to CMS occurred over two years of the five-year period audited. This resulted in millions of dollars being over reported to the agency. The client was obligated to pay this amount back to CMS.

- **Benefits Audit:** This uncovered five PBM issues:
  - Inappropriate application of Prior Authorizations (PAs) to prescription drug claims that led to incorrect member copayment charges. This error caused the client to overpay $800,000 in claims.
  - The PBM incorrectly processed claims for non-FDA approved drugs (including biologics) that should not have been covered under the benefit. This error resulted in the client overpaying several millions for these non-covered drugs.
  - The PBM incorrectly applied Dispensed as Written (DAW) penalties as counting toward the members' out-of-pocket accumulators. These errors had cost the client millions in overpayments.
  - The PBM had inappropriately applied Retail Refill Allowance (RRA) penalties to claims, causing members to collectively overpay $600,000 for their drugs.
  - The PBM inappropriately processed as covered compound drugs that were excluded under the benefit, resulting in the client overpaying millions for these drugs.

Results and Actions Taken:

The PBM acknowledged that their internal compound exclusion lists had errors, but denied responsibility for the other errors uncovered by the audit. The client may pursue further formal action with the PBM.

Key Takeaways:

Auditing and monitoring your PBM regularly is critical to mitigate CMS compliance risks that would otherwise go undetected. PBM auditing ensures that your organization makes due diligence a priority while also averting potentially huge financial liabilities. Conducting regular audits challenges your PBM to optimize service levels rather than just maintain the status quo.

CASE STUDY

Mock CMS Audit Helps Health Plan Pass CMS Muster on First Round in Spite of Numerous Problems Identified

SITUATION:

A regional 50,000-member Medicare Advantage health plan in the Northeast wanted to prepare prior to undergoing its first CMS Program audit, which the plan anticipated it would be selected for shortly, given that CMS did not audit the plan during an initial CMS audit cycle.

Audits Conducted:

The plan hired The Burchfield Group to conduct a CMS Mock Audit to address four areas considered to pose the greatest compliance risks for this plan. The audit looked at four specific areas which included: ODAG (Organization Determinations, Appeals, and Grievances), SNP-MOC (Special Needs Plan Model of Care), SARAG (Service Authorization Requests, Appeals and Grievances), and CCQIPE (Care Coordination & Quality Improvement Program Effectiveness).

Problems Identified:

The mock audits showed that there were significant compliance issues that the plan would need to address in order to be ready to undergo a CMS Program Audit. Specifically, the audit identified more than 10 findings per element including timeliness, clinical decision-making problems, and operational process failures.

Actions Taken:

Based on these findings, the client also sought The Burchfield Group's expertise and consulting guidance in correcting the problems. Using this guidance, the plan completed an internal Corrective Action Plans (CAP) identical to what CMS would require to bring the plan into compliance.

Approximately nine months following completion of the mock audit, and while the plan was still working through the CAPs, CMS notified the plan of its intention to conduct an audit. The plan again worked with the Burchfield Group to prepare.

Results:

- As a result of the mock audit and work on the CAPS, and because the plan worked with the Burchfield Group during the CMS audit process, the plan achieved a good score from CMS on its first program audit. This score was much higher than it would have been otherwise, based on what was revealed during the mock audit.
- Because the Burchfield Group also assisted the plan in testing the data for the CAPS, the subsequent CMS validation audit process conducted at the conclusion of the audit went smoothly.
- The plan improved its internal processes and is more compliance-ready for future audits.
- Based on findings uncovered during the mock audit, the plan is considering expanding its audit activities to include other areas. It also included new language in its pending PBM RFP requesting that its PBM vendor address how it would manage the issues identified.

Key Takeaways:

- CMS Mock Audits accurately help Medicare plans identify areas of greatest compliance risk.
- To be fully effective, a thorough CAP process should be implemented to address areas identified in the mock audit.
- Working with an experienced consulting partner helps mitigate audit findings and builds stronger internal compliance programs over the long term.

SUMMARY

Performing PBM audits on a regular basis as part of a broader, integrated audit strategy helps health plans monitor different aspects of how well the PBM performs in multiple operational areas. Often, uncovering issues during one specific type of audit can signal where other issues may be present and deserving of additional focused oversight and monitoring. Because of the complexity of today's pharmacy benefit plan designs, and an ever-changing regulatory and market landscape, audits are among the best strategies for getting a 360 degree view of how well your PBM is performing across business areas. Having an integrated audit strategy can help your plan recover monies, improve levels of member service, and reduce compliance risks — while also improving your leverage to get the best pricing and levels of support available in today's market.

About the Burchfield Group, an Aon Company

The Burchfield Group, an Aon Company, is one of the largest firms exclusively dedicated to delivering pharmacy benefit consulting, auditing, and compliance services to help health plans maximize pharmacy benefit savings and minimize compliance risks. Our future-focused team of experts has decades of professional experience in virtually all aspects of pharmacy benefits management, as well as health plan compliance and operations, allowing us to offer comprehensive, integrated solutions for our clients. We always provide our clients with independent, objective advice. Visit our website to learn more about how The Burchfield Group, an Aon Company, can help your plan uncover hidden opportunities to save money, reduce compliance risks, and fine-tune your operations.

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