



THE BURCHFIELD GROUP

*Our Expertise. Your Benefit.<sup>SM</sup>*

# PBM Rebate Audits

## Tips for Health Plan Success

March 22, 2018

# About the Burchfield Group

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THE BURCHFIELD GROUP

*Our Expertise. Your Benefit.™*

# Discussion Leaders

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## **Brian Bullock, RPh, MBA**

Founder and CEO

Brian is the founder and CEO of The Burchfield Group and bring over 30 years of pharmacy industry experience to Burchfield.



## **Derek Frye, CISA, MBA**

Practice Leader, Audit & Compliance Services

Derek leads the Burchfield audit teams, conducting over 150 audits annually in service of Burchfield's clients. He brings eleven years of technical and auditing experience to Burchfield.



## **Terri Poindexter**

Health Plan Strategic Consultant

Terri has over 25 years of experience focused on health plans in a variety of pharmacy settings, including PBM's and Specialty Pharmacies and has been at Burchfield for three years.



# Learning Objectives

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- Recognize the importance of rebate audits for health plans
- Understand your contract language relative to rebate guarantees and audit rights
- Top 8 PBM contracting pitfalls that affect rebates
- Describe the components of a PBM rebate audit & Medicare DIR validation
- Anticipate potential findings of a rebate audit
- Incorporate a rebate audit into a comprehensive PBM audit strategy

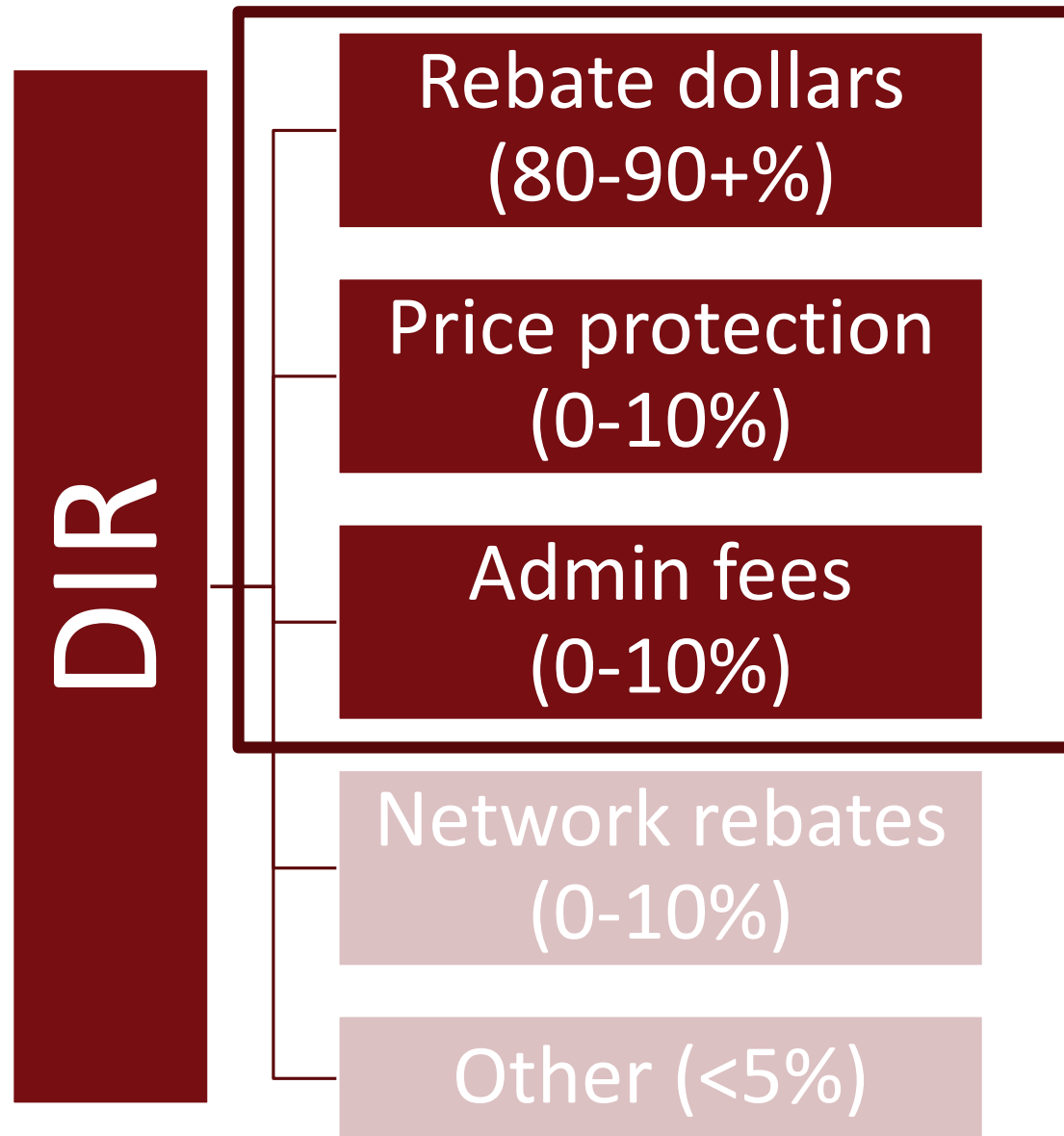


# Burchfield PBM Management Strategy

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# Medicare Direct and Indirect Remuneration (DIR)



*We're discussing these three today*

# Health Plan Rebates - Background/Impact

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- Manufacturers provide rebates on many brand and specialty medications
- It's all about market share...
  - Can contribute up to 20% of all pharmacy savings
  - Rebate volume determined by drug mix, custom formularies, book of business, etc.
- Total rebate dollars have grown significantly in the last three years
  - Significant scale has strengthened PBM's position with pharma
  - Includes factors such as 'Inflation Protection'
  - Negotiated data/admin fees
- Added auditing complexity – rebate aggregators
- Rebates on medical pharmacy claims
  - Don't overlook capturing the revenue available through medical rebates



# Health Plan PBM Rebate Guarantees

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- Contractual rebate guarantees reflect what was negotiated with the PBM
  - Usually percentage share *plus* minimum guarantee based on branded claims
  - Manufacturer admin fees and inflation protection may not be included
- PBMs are over-performing on rebate guarantees – protect yourself so your PBM cannot offset other shortfalls (such as AWP discounts)
- Strategies exist to apply rebates at point-of-sale (POS), for example UnitedHealthcare’s recent announcement
  - Plan design will determine who will benefit – members or the plan
  - POS rebates incorporate a ‘true up’ process – this additional complexity should be audited
- A rebate audit is the only way to determine if your plan received accurate payments





# Rebates - Top 8 Contracting Pitfalls

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- Rebate over-performance applying to other shortfalls (e.g., AWP discounts)
- Rebate audits limited to 2 quarters and 5 manufacturers
- Rebate audits limited by a longer than needed blackout period
- Rebate audits requiring 90 days of notice before kickoff
- Audit language limits you to at most one audit per year
- Audit language limits how far back you can audit
- Rebate audits limited to being conducted by a “top 5” accounting firm
- Not being able to audit Medicare DIR until after it has been submitted to CMS



# Rebate Audit & Medicare DIR Validation Process

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## Rebate Audit

Admin fee, price protection, and rebate dollars

A three-part comparison: what rebate amounts the PBM invoiced the manufacturer(s), the amounts they *should have* invoiced, and the actual amounts collected and disbursed to you from your PBM.

*Includes:*

1. Your Rx claims data & PBM contract.
2. Selecting which manufacturers to audit in-depth.
3. An onsite to the PBM's to independently validate that the correct amounts were invoiced for rebates.
4. A report noting (1) where manufacturers should have been invoiced more, or less, than what the PBM invoiced, and (2) where you are entitled to more, or less, than what you received.

## Medicare DIR Validation

A comparison between the DIR file submitted to CMS and the total DIR the health plan actually received. A full year rebate audit should be conducted first, otherwise you're trusting the dollars are correct.

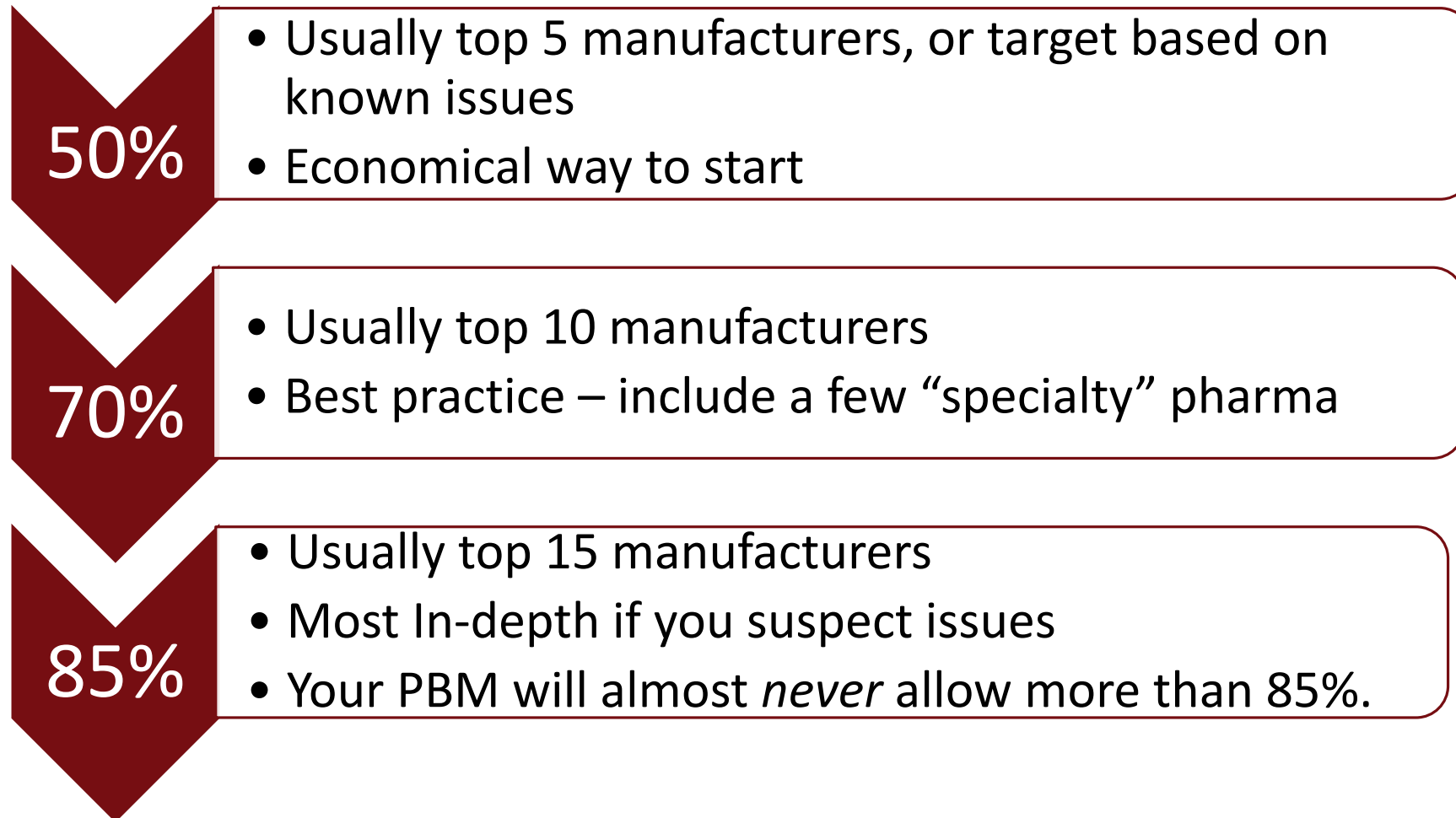
*Includes:*

1. Your Rx claims data, the DIR file submitted to CMS, and NDC-level rebate reports.
2. A desktop review to determine, based on the NDC-level reports and the DIR file submitted to CMS, whether DIR reporting is materially correct.



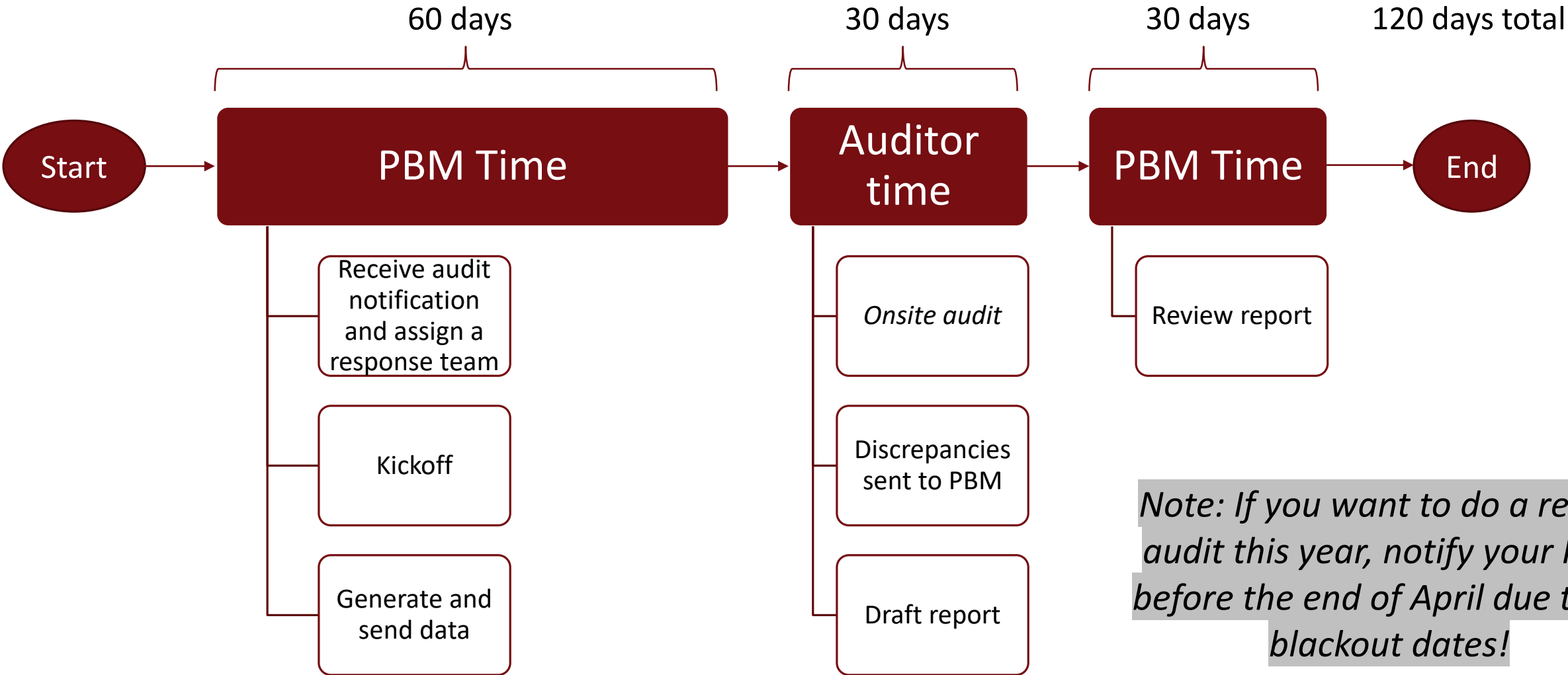
# Rebate Audit Process – Scope

Rebate audits are selected by percent of manufacturer volume



*Note: Required data for each of these options is 6 months at a minimum, but a best practice is a year of data.*

# Rebate Audit Process – Timeline



# Potential Rebate Audit Findings

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## Typical findings

- Approximately 70% of the rebate audits we conduct identify collectable (\$\$\$ impact) findings

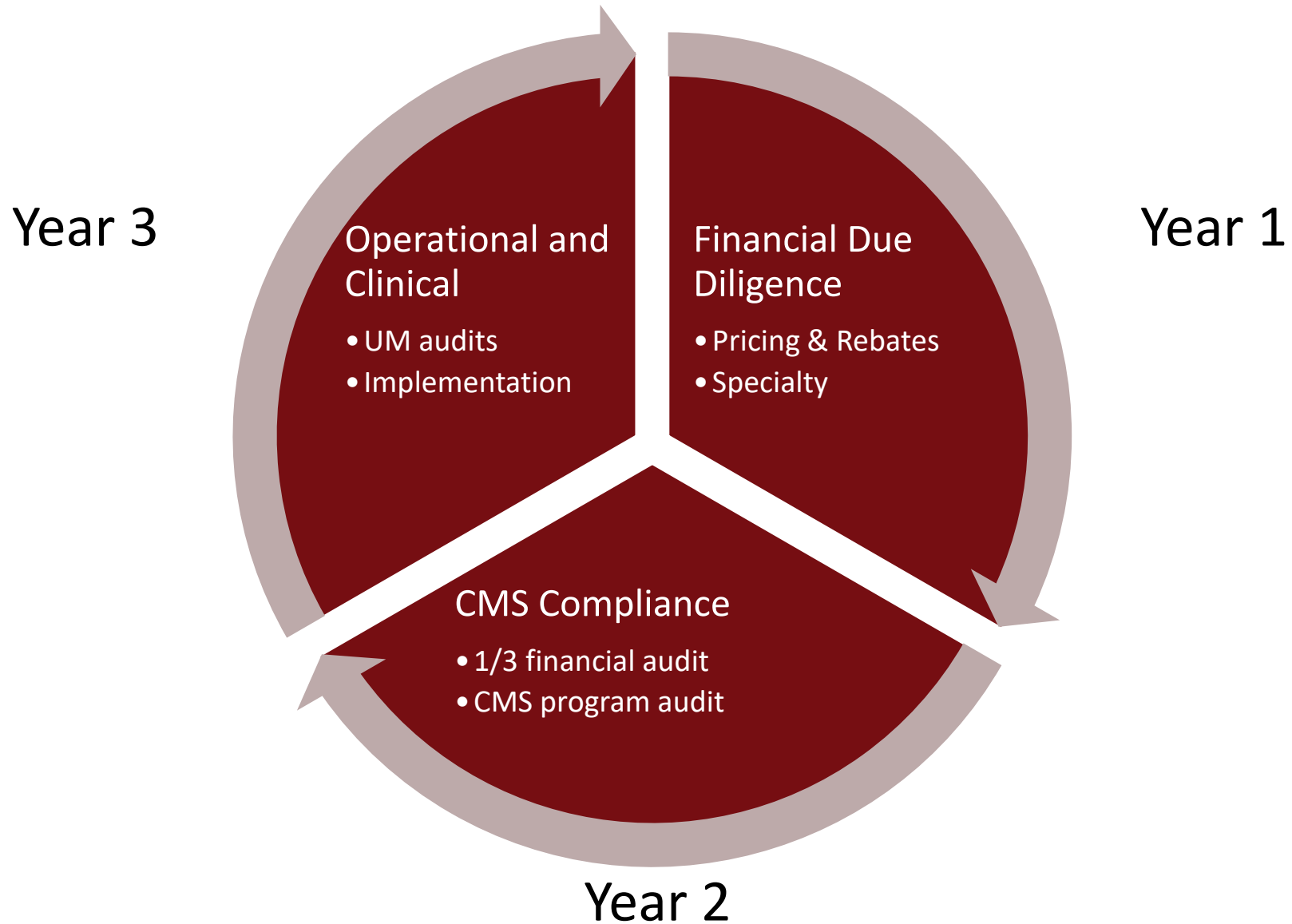
## Top findings observed in Burchfield's rebate audits

1. Failure to invoice at the correct rate - disadvantage status errors (occurs in approx. 40% of audits)
  - These errors may be worth a few hundred dollars to millions of dollars, depending on the severity
2. Failure to use the correct formulary errors (occurs in approx. 20% of audits)
  - These errors may be worth a few hundred dollars to millions of dollars, depending on the severity
3. Failure to exclude 340b claims (occurs in approx. 10% of audits)
  - These errors may be worth a few hundred dollars to thousands of dollars, depending on the severity
4. Reporting errors (occurs in approx. 10% of audits)
  - These errors do not typically result in collectable findings (except in the cases of performance guarantees)



# Comprehensive Audit Strategy

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- ✓ Incorporate a rebate audit into a comprehensive PBM management strategy



# Open Questions & Our Contacts

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Survey: <http://bit.ly/RebateAuditMarch2018>

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