INTER-OFFICE MEMORANDUM

DATE: March 19, 2015

TO: Audit Committee Members

FROM: Lyndon S. Remias, City Auditor

SUBJECT: Pharmacy Claims Audit

The Virginia Beach City Council adopted a resolution in May 2014 directing the City Auditor to perform periodic audits of the health care program as deemed necessary. After discussion, we felt one high risk/high dollar area we would first like to address is our health plan’s pharmacy benefit. We have, with much success, hired a health claims auditor to perform an annual risk based contingency fee audit of health care claims (non – pharmacy claims). This audit is performed electronically with proprietary audit software and covers 100% of those claims. We currently pay approximately $30,000,000 a year in pharmacy claims as well and we felt strongly that this should be the first area, not covered by our health care claims audit that we should address. We spoke with the Consolidated Benefits Office and they agreed with our plan to address it.

In November of 2014, as we were finishing our research and draft RFP to hire a pharmacy benefit audit expert, management contacted us with a particular concern regarding Optima and their Pharmacy Benefit Manager (PBM), Catamaran. Optima was made aware of some pricing errors that were made by Catamaran that negatively affected Virginia Beach City/Schools (VBCS) for the plan year (calendar) 2014.

Below is a brief overview:

Issue
On February 1, 2014, Optima Health re-contracted with Catamaran for deeper discounts on Retail Generic and Brand prescriptions for the Optima Health book of business. The re-
contracted amount was not correctly applied to the VBCS network rates, due to unique programming in their system for our group’s Preferred network. This was an error made by Catamaran. The re-contracted rate should have been applied to the Non-Preferred network, and the Preferred network should have had a 1% greater discount.

Note: The Preferred network allows members to pay a lower copay if they purchase their prescriptions at Walgreens or Walmart/Sam’s Club. The Non-preferred network includes all other pharmacy retail locations.

**Impact of Issue – Preferred Network rate**
Because the re-contracted rate was not applied, VBCS incorrectly paid more than necessary for the Preferred network and Non-Preferred network prescription rates. Catamaran corrected the Preferred network rate in the system on November 7, 2014. Catamaran’s internal analysis estimated that this pricing error resulted in $430,275.55 due to VBCS.

**Impact of Issue – Non-Preferred Network rate**
Corrections were also made in Catamaran’s pricing system on November 7, 2014 for VBCS’s Non-Preferred network rates, however it was done incorrectly, applying the deeper discount meant for the Preferred Network. This, netted with the incorrect pricing mentioned above for the Non-Preferred rates, resulted in a $440,633.11 owed to VBCS as estimated internally by Catamaran.

| Estimated amount due to employees and VBCS for Overpayment of Prescription Drugs |
|---------------------------------|-----|
| Preferred Network Rate          | $ 430,275.55 |
| Non-Preferred Network Rate      | $ 440,633.11 |
| **Total**                       | **$ 870,908.66** |

**Independent Validation of Overpayment Amount**
- On November 25, 2014, Optima met with the Benefits Executive Committee to explain the above errors and to develop a plan to verify the amount owed to VBCS and employees. It was agreed that an independent pharmacy auditor would be hired at Optima’s own expense to verify the estimated amount owed of $870,908.66 to VBCS for the two errors mentioned above.
- Pharmaceutical Strategies Group, LLC (PSG) was hired to perform the audit. Optima agreed that VBCS would be paid at minimum $870,908.66 – the original internal estimate by Catamaran – and if the audit indicated a higher amount was owed, they would be required to pay that amount.
- PSG performed a “Pricing Audit Analysis” to determine the impact of the pricing setup errors for the period February 1, 2014 – December 2, 2014. We obtained the analysis
on January 27, 2015. The analysis showed a pricing error analysis of $698,772.87. These results were conducted using a testing environment simulating the actual adjudication of claims. As stated above even though the amount of $698,772.87 is less than the original estimate of overpayment amount of $870,908.66 Catamaran agreed that VBCS would be paid at minimum $870,908.66.

**Optima Corrective Action**

- Will notify pharmacies of the required adjustments and re-adjudicate all pharmacy claims.
- Will work with the Consolidated Benefits Office to send a letter to employees who overpaid notifying them that they will receive a check from Catamaran for the overpayment.
- Will implement a new internal policy that will require the Optima pharmacy department to perform an annual audit of the contractual pricing to ensure rates loaded into the system are accurate. The policy also calls for Optima to perform an audit any time there is a change to the contractual discounts in the plan year.

**Benefits Executive Committee Response**
The Benefits Executive Committee has responded appropriately and in a timely manner by meeting with Optima, informing the City Auditor, having Optima hire an auditor to confirm the fiscal impact of the errors and working with Optima to plan the logistics of informing and refunding the affected employees.

**Office of City Auditor Summary and Next Steps**
The City Auditor’s Office feels that these events confirm our original assessment that VBCS Pharmacy Benefit is a high dollar, extremely complicated area that warrants being viewed as high risk and thus should be audited on a regular basis. Due to the errors discovered, the resulting pricing audit analysis and the pending re-adjudication of claims for the plan year 2014 (calendar) we delayed moving forward with our planned pharmacy claims audit. However, we have already developed an RFP, which will be issued for auditing the plan year 2015-pharmacy claims. The time spent researching and drafting the RFP was time well spent as we are prepared to initiate the RFP process at the appropriate time during the calendar year.