

Prescription Benefit Management Audit

EXECUTIVE SUMMARY

State of Kansas
Administered by CVS Caremark

Audit Periods

January 1, 2018 – December 31, 2018

January 1, 2019 – December 31, 2019

Presented to

State of Kansas

March 26, 2021

Prepared by



Subcontractor to



**CLAIM TECHNOLOGIES
INCORPORATED**

PREFACE

This **Executive Summary** presents key findings and recommendations from PillarRx Consulting, LLC's (PillarRx), 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. The information that these key findings and recommendations are based upon is detailed in the **Specific Findings Report**.

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 and the **Specific Findings 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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This document has been prepared in good faith on the basis of information provided to PillarRx Consulting, without any independent verification. If the data, information, and observations received are inaccurate or incomplete, our review, analysis, and conclusions may likewise be inaccurate or incomplete. Our conclusions and recommendations are developed after careful analysis and reflect our best professional judgment.

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PillarRx Consulting representatives may from time to time provide observations regarding certain tax and legal requirements including the requirements of federal and state health care reform legislation. These observations are based on our good-faith interpretation of laws and regulations currently in effect and are not intended to be a substitute for legal or tax advice. Please contact your legal counsel and tax accountant for advice regarding legal and tax requirements.

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, 2018 through December 31, 2018 and January 1, 2019 through December 31, 2019. 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 2018	1,050,106	\$82,350,774.57
CY 2019	951,264	\$81,860,020.23

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. Details of the discussion of those errors between PillarRx and CVS can be found under separate cover in the **Specific Findings Report**.

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 > Greater Than Contracted Rates	Acceptable Performance — Same as Contracted Rates	Under-Performance < Less Than Contracted Rates			
Discounts (1/1/2018 – 12/31/2018)						
Component Description	# Claims	Contracted Discount Rate	Actual Discount Rate	Contracted Claim Ingredient Cost (less minimum Rebate Guarantee)	Actual Claims Ingredient Cost	Variance^
Retail Brands (Jan-Aug)	82,221	17.00%	26.29%	\$24,110,562	\$20,545,017	\$68,748 >
Retail Brands (Sept-Dec)	40,780	17.45%	0.60%	\$8,196,158	\$11,692,956	
Retail Generics (Jan-Aug)	515,684	81.25%	81.95%	\$11,070,278	\$10,654,678	-\$1,492,148 <
Retail Generics (Sept-Dec)	241,051	81.50%	74.69%	\$5,185,389	\$7,093,136	
Retail Brands 90 day (Jan-Aug)	5,279	20.00%	25.07%	\$1,848,283	\$1,673,601	\$301,373 >
Retail Brands 90 day (Sept-Dec)	3,160	20.50%	24.93%	\$1,315,054	\$1,188,362	

Discounts (1/1/2018 – 12/31/2018)						
Component Description	# Claims	Contracted Discount Rate	Actual Discount Rate	Contracted Claim Ingredient Cost (less minimum Rebate Guarantee)	Actual Claims Ingredient Cost	Variance [^]
Retail Generics 90 day (Jan-Aug)	81,467	83.25%	87.75%	\$3,816,281	\$2,790,846	\$788,662 >
Retail Generics 90 day (Sept-Dec)	45,399	84.00%	82.15%	\$2,050,235	\$2,287,008	
Mail Generics (Jan-Aug)	7,840	83.25%	91.20%	\$391,202	\$205,642	\$123,752 >
Mail Generics (Sept-Dec)	3,782	84.00%	78.63%	\$184,328	\$246,135	
Mail Brands (Jan-Aug)	Excluded from Guarantees					
Mail Brands (Sept-Dec)						
Total				\$58,167,770	\$58,377,381	-\$703,486 <

[^] Total Overage/shortfall is a summary difference of both time periods and the net difference is calculated for the total per component. Since the Generic component had an underperformance the sum of the Generic and Generic 90 day is the overall summary variance.

Discounts (1/1/2019 – 12/31/2019)						
Component Description	# Claims	Contracted Discount Rate	Actual Discount Rate	Contracted Claim Ingredient Cost (less minimum Rebate Guarantee)	Actual Claims Ingredient Cost	Variance
Retail Brands	101,638	17.45%	17.29%	\$26,291,009	\$26,385,273	-\$94,264 <
Retail Generics	664,337	81.50%	80.16%	\$14,237,213	\$15,264,658	-\$1,027,445 <
Retail Brands 90 day	8,692	20.50%	21.70%	\$2,526,386	\$2,448,389	\$77,997 >
Retail Generics 90 day	138,314	84.00%	86.50%	\$6,343,327	\$5,350,791	\$992,536 >
Mail Generics	10,337	24.50%	20.87%	\$480,793	\$482,288	-\$1,495 <
Mail Brands	Excluded from Guarantees					
Total				\$49,878,728	\$49,931,399	-\$52,671 <

Discounts (1/1/2019 – 12/31/2019)						
Component Description	# Claims	Contracted Discount Rate	Actual Discount Rate	Contracted Claim Ingredient Cost (less minimum Rebate Guarantee)	Actual Claims Ingredient Cost	Variance
Specialty (Sept 2018 – Dec 2019)	13,751	18.80%	25.95%	\$63,540,588	\$57,551,871	\$5,988,717 >
Total				\$63,540,588	\$57,551,871	\$5,988,717 >

As shown in the following tables, the dispensing fee analysis identified fees were over charged by CVS for January 1, 2018 to December 31, 2018 and January 1, 2019 to December 31, 2019, which is a plan underperformance for the State.

Dispensing Fees (1/1/2018 – 12/31/2018)					
Component Description*	Contracted Disp Fee	# Claims	Total Actual (Collected) Disp Fee	Total Contracted Disp Fee	Total Overage / (Shortfall)^
Retail Brands (Jan-Aug)	\$0.60	82,221	\$48,219.14	\$49,332.60	-\$4,805.27
Retail Brands (Sept-Dec)	\$0.45	40,780	\$24,269.73	\$18,351.00	
Retail Generics (Jan-Aug)	\$0.60	515,684	\$278,474.48	\$309,410.40	-\$552.70
Retail Generics (Sept-Dec)	\$0.45	241,051	\$141,924.10	\$108,472.95	
Retail Brands 90 day (Jan-Aug)	\$0.00	5,279	\$338.60	\$0.00	-\$2,515.23
Retail Brands 90 day (Sept-Dec)	\$0.00	3,160	\$214.10	\$0.00	
Retail Generics 90 day (Jan-Aug)	\$0.00	81,467	\$6,836.90	\$0.00	-\$10,847.99
Retail Generics 90 day (Sept-Dec)	\$0.00	45,399	\$4,011.09	\$0.00	
Total		1,015,041	\$504,288.14	\$485,566.95	-\$18,721.19

^ Total Overage/shortfall is a summary difference of both time periods and the net difference is calculated for the total per component.

*Specialty, Compound, Over the Counter, Retail Usual and Customary, Vaccines, Subscriber, and Coordination of Benefits claims were excluded from all contract guarantees with EGWP also excluding Long Term Care claims; however, PillarRx reviewed claims for reasonableness and found no outliers.

Dispensing Fees (1/1/2019 – 12/31/2019)					
Component Description*	Contracted Disp Fee	# Claims	Total Actual (Collected) Disp Fee	Total Contracted Disp Fee	Total Overage / (Shortfall)^
Retail Brands	\$0.45	101,638	\$59,251.64	\$45,737.10	-\$13,514.54
Retail Generics	\$0.45	664,337	\$394,967.21	\$298,951.65	-\$96,015.56
Retail Brands 90 day	\$0.00	8,692	\$529.80	\$0.00	-\$529.80
Retail Generics 90 day	\$0.00	138,314	\$11,891.59	\$0.00	-\$11,891.59
Total		912,981	\$466,640.24	\$344,688.75	-\$121,951.49

*Specialty, Compound, Over the Counter, Retail Usual and Customary, Vaccines, Subscriber, and Coordination of Benefits claims were excluded from all contract guarantees with EGWP also excluding Long Term Care claims; however, PillarRx reviewed claims for reasonableness and found no outliers.

PillarRx was able to verify that CVS is underperforming based on their contract. Combining both discounts and dispensing fees variance amounts, for 2018 there was an underperformance of \$722,207.50 and for 2019 an under performance of \$174,621.81.

Pricing and Fees Conclusion

PillarRx was able to verify that CVS is underperforming based on their contract. Combining both discounts and dispensing fees variance amounts, for 2018 there was an underperformance of \$722,207.50 and for 2019 an under performance of \$174,621.81.

CVS self-reported a shortfall for 2018 of \$879,694.03, which was reimbursed via check # 7333485 dated 9/30/2019. The reconciliation reporting done subsequently for the audit revealed a shortfall of \$918,963.41. The incremental shortfall of \$39,269.38 will be reimbursed to the State at the conclusion of the audit.

CVS self-reported a shortfall for 2019 of \$190,154.14, which was reimbursed via check number 7515101 dated 7/22/2020. The reconciliation reporting done subsequently for the audit revealed a shortfall of \$261,718.57. The incremental shortfall of \$71,564.43 will be reimbursed to the State at the conclusion of the audit.

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.

Plan A - Coinsurance		
Plan Year	Total Claims	Coinsurance Collected
2018	634,043	\$8,210,754.27
2019	546,864	\$7,235,765.20
Plan C - Coinsurance		
Plan Year	Total Claims	Coinsurance Collected
2018	367,600	\$12,308,305.51
2019	341,116	\$11,642,710.01
Plan J – Coinsurance		
Plan Year	Total Claims	Coinsurance Collected
2018	12,509	\$343,711.25
2019	16,395	\$406,734.65

Plan N – Coinsurance		
Plan Year	Total Claims	Coinsurance Collected
2018	31,527	\$897,605.84
2019	39,003	\$1,149,810.86
Plan Q – Coinsurance		
Plan Year	Total Claims	Coinsurance Collected
2018	4,412	\$69,699.14
2019	7,866	\$191,352.17

PillarRx submitted 37 members for 2018 and 36 members for 2019 to CVS to review the accumulator amounts. Per CVS, pharmacy claims are adjudicated in real time while medical claims are not. All carriers are medically integrated. Therefore, accumulator totals lie with the medical vendor, and any excess maximum out-of-pocket is the responsibility of the medical vendor.

PillarRx submitted 398 claim samples to CVS for both 2018 and 2019 that represented potential exceptions to the coinsurance, prior authorization, and exclusion 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 claims that were included in the claim sampling that had adequate explanation for the exception, details below have been provided.

2018 Claim Year Samples:

1. Fifty-nine claims that addressed an incorrect coinsurance had a result that it was timing based on accumulators.
2. Fifty-nine claim samples were found to have been on the Chronic Care List and the correct coinsurance was calculated.
3. Twelve claim samples were provided that were included in the Broad Vaccine Network Program. The pharmacist was required to enter an incentive fee for vaccine coinsurance pricing to apply, since pharmacist did not submit, standard copay applied.
4. Three claim samples for carrier 1600 transplant and HIV medications have special copay and days' supply rules.
5. Twenty-two claim samples provided for claims that were included on the ACA list, where generics are covered at \$0.00.
6. Twelve claims were found to be on the Special Case list that were either currently active or were previously terminated. Correct coinsurance applied.

2019 Claim Year Samples:

1. Thirty-three claims that addressed an incorrect coinsurance had a result that it was timing based on accumulators.
2. Fifty-five claim samples were found to have been on the Chronic Care List and the correct coinsurance was calculated.
3. Two claim samples were found to have a manufacturer copay card that was applied.
4. Seven claim samples for carrier 1600 transplant and HIV medications have special copay and days' supply rules.
5. Eight claim samples were provided that were included in the Broad Vaccine Network Program. The pharmacist was required to enter an incentive fee for vaccine coinsurance pricing to apply, since pharmacist did not submit, standard copay applied.
6. Thirty claim samples were provided for Specialty claims and Special Case Claims, some to have the \$100 maximum and others were not. CVS provided the appropriate response.
7. Eight claim samples provided for claims that were included on the ACA list, where generics are covered at \$0.00.
8. Eight claims were found to be on the Special Case list that were either currently active or were previously terminated. Correct coinsurance applied.

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

1. There was one claim sample for Tamoxifen Citrate claim in 2018 that was adjudicated incorrectly and overcharged the member. Per CVS, this will be submitted to the Service Warranty Team at the conclusion of the audit to determine if and what refund is due.
2. There were three claim samples for Preventive Statin medications in 2018 that were adjudicated incorrectly and the member was overcharged. Per CVS, this will be submitted to the Service Warranty Team at the conclusion of the audit to determine if and what refund is due.

Drug Exclusions/Prior Authorizations

Exclusions specify the drugs and products that a plan would not cover unless there was a Prior Authorization (PA) on file. Based on documentation provided by CVS, PillarRx created excluded drug and PA drug listings and re-adjudicated the claims for these non-covered and prior authorized medications.

A total of 49 claims for 2018 and 48 claims for 2019 were provided as samples. The claim data responses and documentation provided by CVS allowed PillarRx to confirm that drug exclusions and prior authorizations were administered correctly.

Administration of Age Rules

Age rules specify that a participant must be within a specific age group for a specific medication to be covered.

PillarRx noted no issues related to age rules.

Administration of Quantity Limits

Quantity limits are included in plans to ensure safety and appropriate utilization. PillarRx noted that based on the language in the drug coverage documents provided by CVS, claims are adjudicating within the parameters.

PillarRx noted no issues related to quantity limits.

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 conducted an extensive virtual review of the agreements and amendments between CVS and the top 5 pharmaceutical manufacturers by rebates paid specific to the State of Kansas arrangement for First Quarter 2018 and First Quarter 2019. In addition, PillarRx reviewed Client’s rebate payment reports and invoices.

First Quarter 2018	First Quarter 2019
<ul style="list-style-type: none"> • Abbvie • Astra Zeneca • Novo Nordisk • Glaxo Smith Kline • Johnson & Johnson 	<ul style="list-style-type: none"> • Abbvie • Astra Zeneca • Eli Lilly • Merck & Co • Novo Nordisk

Findings and Recommendations

PillarRx’s Manufacturer Rebate Audit shows that CVS billed the 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 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 from day to day. 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 35 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 nonchain pharmacies during each period; January 1, 2018 – December 31, 2018 and January 1, 2019 – December 31, 2019 utilized by the State network under the CVS agreement.

After reviewing contracts between CVS and the pharmacies, including 5 chain pharmacies and 5 independent pharmacies during each time period, 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.

AUDIT CONCLUSION

CVS Caremark provided the following conclusions to the audit to which PillarRx agrees.

- The reconciliation reporting completed for the 2018 Audit revealed an incremental shortfall of \$39,269.38 that will be reimbursed to the client at the conclusion of the audit.
- The reconciliation reporting completed for the 2019 Audit revealed an incremental shortfall of \$71,564.43 that will be reimbursed to the client at the conclusion of the audit.
- One (1) claim for Tamoxifen was provided and reviewed to evaluate the copay. It was determined that the prior authorization, ZLK11141702, had been entered incorrectly, causing the Health Care Reform \$0 copay to be overridden. A service warranty will be

submitted at the conclusion of the audit to determine the financial liability of all claims impacted by the prior authorization noted above. The detailed analysis will be provided at the conclusion of the audit.

- Three (3) claims for statin drugs were provided and reviewed to evaluate the copays. It was determined that the prior authorizations, ZLK05011802, ZLK06271804 and JP041318001, had been entered incorrectly, causing the Health Care Reform \$0 copay to be overridden. A service warranty will be submitted at the conclusion of the audit to determine the financial liability of all claims impacted by the prior authorizations noted above. The detailed analysis will be provided at the conclusion of the audit.
- Upon completion of the service warranties, it is our view that we are in compliance with the contract and plan design, and there are no additional material financial discrepancies related to the findings.
- Service warranty results will be provided to PillarRx when they become available. Any amounts due for the above findings will be reimbursed at the conclusion of the audit. The payments represent a remittance for the previously stated findings pursuant to claims reviewed by PillarRx covering dates of service from January 1, 2018 through December 31, 2019.

We consider it a privilege to have worked for, and with, your staff and administrator. Thank you again for choosing CTI and PillarRx.



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