



STATE OF WISCONSIN
Department of Employee Trust Funds
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CORRESPONDENCE MEMORANDUM

DATE: November 10, 2014
TO: Audit Committee Members
FROM: Yikchau Sze, Director
Office of Internal Audit
SUBJECT: Pharmacy Benefit Manager Audit

This memo is for Audit Committee review and discussion. No action is required.

Navitus Health Solutions, LLC (Navitus) is the third party administrator of the pharmacy benefits program of the Department of Employee Trust Funds (ETF). ETF retained TRICAST, Inc. to conduct a pharmacy benefits audit. Attachment A is the memo to the Group Insurance Board from Jeff Bogardus, ETF Pharmacy Benefit Programs Manager, highlighting objectives, scope and findings of the audit. Attachment B is the Executive Summary from TRICAST.

The auditor expressed a “clean” opinion on the audit and concluded that “*TRICAST considers this a passing audit. All variances identified were validated as appropriate by Navitus*”

Jeff Bogardus will be available at the Audit Committee meeting to answer any questions. The detailed audit report will be available upon request.

Attachment A: Tricast Audit Memo – Jeff Bogardus
Attachment B: Executive Summary - TRICAST

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed: 11/17/2014

Board	Mtg Date	Item #
AUD	12.11.14	3



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CORRESPONDENCE MEMORANDUM

DATE: October 22, 2014
TO: Group Insurance Board
FROM: Jeff Bogardus, Manager, Pharmacy Benefit Programs
Mary Statz, Director, Health Benefits and Insurance Plans Bureau
SUBJECT: Audit of Pharmacy Benefit Manager Services for Plan Years 2011 & 2012 and
Retiree Drug Subsidy Program for Plan Years 2010 & 2011

This memo is for informational purposes only. No Board action is required.

The Department of Employee Trust Funds (ETF) retained TRICAST, Inc. to conduct a comprehensive biennial audit to assess compliance with the administrative services agreement with Navitus Health Solutions, LLC (Navitus), as well as Navitus' performance with regard to pharmacy benefits management and reporting for the Retiree Drug Subsidy (RDS) program. The audit was performed on pharmacy benefits for plan years 2011 and 2012, and the RDS program for plan years 2010 and 2011.

As with past audits, TRICAST reviewed 100% of the pharmacy claims processed by Navitus and segmented the audit into five parts:

- Contract Pricing Analysis
- Onsite Review of Pharmacy Network Contracts
- Rebate Audit and Analysis
- Retiree Drug Subsidy Program Audit
- Plan Design Audit

This is the third audit that TRICAST has performed under the current contract.

Findings

TRICAST's Executive Summary (Attachment A) on page 5, and Audit Results Report (Attachment B) on page 21, conclude that "*TRICAST considers this a passing audit. All variances identified were validated as appropriate by Navitus.*" TRICAST indicated that where the audit revealed discrepancies, Navitus was able to show it appropriately administered the pharmacy benefit programs according to plan design and contractual provisions. Upon request, staff will provide detailed reports that support the Executive Summary and Audit Results Report.

Reviewed and approved by Lisa Ellinger, Administrator,
Division of Insurance Services.

Electronically Signed:
10/30/2014

Board	Mtg Date	Item #
GIB	11.18.14	3E

The rebate analysis for 2011 and 2012 plan years show small variances in the rebates reported by Navitus compared to TRICAST's independent calculation of rebates owed from the top eight drug manufacturers. The variances reflected the audit's expectation that more rebate dollars should have been passed through by Navitus. As TRICAST indicates on page 13 of the Audit Results Report, Navitus submits rebates to drug manufacturers aggregated for Navitus' entire book of business. However, when TRICAST calculates the rebates for their analysis they do so based on our group health insurance programs' claims alone. This can create a variance between the TRICAST calculation and what Navitus passes through to our group health insurance programs. This variance was -0.89% or \$35,041 more rebates expected for 2011, and -1.88% or \$62,291 more rebates expected for 2012. Both are well within acceptable variance limits based on the audit standards TRICAST applies, and we believe this reflects the small amount of imprecision in TRICAST's rebate calculation method because they do not have access to rebate specifics for all other Navitus clients.

Also noteworthy are details of the Retiree Drug Subsidy (RDS) program audit, which can be found on pages 14 and 15 of the Audit Results Report (Attachment B). The RDS audit assessment conducted by TRICAST included:

- Comparison of claims to Medicare eligible members
- Identification of Part D covered National Drug Codes
- Recalculation of Gross Retiree Cost, Threshold Reduction, Limit Reduction, Gross Eligible, Estimated Cost Adjustment, Available Retiree Cost, and Subsidy Paid

TRICAST reported that the audit of the RDS program for 2010 and 2011 showed variances of +0.42% (+\$49,107.97) and -0.19% (-\$22,429.64) respectively. In 2010 the subsidy the State group health insurance program received was greater than the amount TRICAST calculated for the audit, and in 2011 the subsidy received was lower. According to TRICAST, Navitus appropriately includes all claims for Medicare Part D and Medicare Part B drugs, but TRICAST only accounts for Medicare Part D drug claims. This accounts for the variances and reflects the more conservative approach TRICAST uses to evaluate the RDS program.

TRICAST also indicated in its RDS assessment report that the Centers for Medicare and Medicaid Services (CMS), "... has typically allowed a difference of 10% for all measures; therefore, a 5% or less parameter would be acceptable." According to TRICAST, the 10% threshold established by CMS is guidance provided to third party auditors by CMS to flag problems that plan sponsors may have in reporting costs for the RDS program. TRICAST narrows the acceptable threshold parameter to 5% to ensure a better audit of the program.

Staff will be at the Board meeting to answer any questions.

Pharmacy Program Oversight Executive Summary

Created for

State of Wisconsin ETF

October 17, 2014

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I. Auditor's Report

State of Wisconsin, Department of Employee Trust Funds (ETF) is assessing the performance of its Pharmacy Benefit Manager (PBM), Navitus Health Solutions, LLC (Navitus). ETF is completing this audit to maintain ongoing oversight efforts and obtain a thorough understanding of the performance of the subcontracted PBM.

ETF, on behalf of State of Wisconsin Insurance Board, provides pharmacy program management for more than 235,000 participating members associated with annual drug costs in excess of \$202 million.

Tricast performed a comprehensive biennial audit of Navitus' administration of the pharmacy benefits for ETF. This audit represents phase three of three biennials audits.

Phase 3

Client Name	State of Wisconsin ETF
PBM Name	Navitus
RDS Claims Period	01/01/2010 through 12/31/2011
Claim Check Claims Period	01/01/2011 through 12/31/2012
Claim Check Total Claims	6,370,123
Pharmacy Network Period	01/01/2010 through 12/31/2011
Rebate Periods	10/01/2011 through 12/31/2011 and 10/01/2012 through 12/31/2012

II. Auditor's Findings

Retiree Drug Subsidy (RDS) Program Audit

TRICAST calculated 0.42% variance for 2010, and 3.43% variance for 2011. TRICAST concludes that the subsidy billed and collected on the behalf of the ETF to be within acceptable parameters of our audit.

Claim Check Audit

- **Copay:** Miscellaneous minor inconsistencies were found in collected copays that represented a less than 1% of an overall variance. Navitus determined that these inconsistencies primarily occurred in mail claims because the copay methodology is based on day supply which allows members to receive less than a 90 day supply at mail for a reduced copay. The remaining inconsistencies are for drugs that are part of either the RxCents program, Health Care Reform or Tablet Splitting program.
- **Plan Design:** TRICAST noted no discrepancies in day supply, drug exclusions, prior authorizations, quantity limits and gender edits.
- **Pricing:** TRICAST concludes that Navitus is performing per the contract on discounts and dispensing fees. Pricing parameters are aligned with the size and scope expected in the market place for time analyzed.

Onsite Review of Pharmacy Network Contracts

TRICAST concludes that the majority of the pharmacies, including the large chains, was compliant with their contracts and was performing as expected.

Rebate Audit

TRICAST concludes that Navitus is processing and paying rebates for ETF in compliance with the contracts with the manufacturers.

III. Auditor's Conclusions

TRICAST considers this a passing audit. All variances identified were validated as appropriate by Navitus. After review of Navitus' responses to our findings, we are comfortable that State of Wisconsin, Department of Employee Trust Funds plan is being administered per the plan design documentation.

TRICAST will continue to review pricing, rebates, and plan design on behalf of the State of Wisconsin, Department of Employee Trust Funds.