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Correspondence Memorandum

Date: October 3, 2022
To: Group Insurance Board
From: Tricia Sieg, Pharmacy Benefit Programs Manager
 Office of Strategic Health Policy
Subject: Audit of Pharmacy Benefit Manager

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

Background

The Department of Employee Trust Funds (ETF) retained PillarRx Consulting, LLC (PillarRx), to conduct a comprehensive annual audit of the administration of all pharmacy benefit programs included as part of the State of Wisconsin Public Employees Group Health Insurance Program (GHIP).

PillarRx is an independent auditing firm that specializes in the pharmaceutical industry. Their audits assess compliance with the Group Insurance Board's (Board's) contract with Navitus Health Solutions, LLC (Navitus), as the pharmacy benefit manager (PBM).

PillarRx performed a comprehensive audit of Navitus's administration of the pharmacy benefits offered to all members. The most recent audit reviewed the following:

- Commercial pharmacy claims January 1, 2021, through December 31, 2021
- Employer Group Waiver Plan (EGWP) pharmacy claims January 1, 2020, through December 31, 2020
- Pharmacy Network January 1, 2020, through December 31, 2020
- Pharmacy Rebates October 1, 2020, through December 31, 2020.

After review, the auditors concluded that the plans are being administered per the plan design documentation. PillarRx considers this a passing audit.

Audit Highlights

PillarRx found that Navitus is overperforming on its contractual discount obligation to the Board for both commercial and EGWP populations.

Eileen Mallow

Reviewed and approved by Eileen Mallow, Director, Office of Strategic Health Policy
 Electronically Signed 10/18/2022

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Under the terms of the Board's contract with Navitus, for the 1,355,827 commercial pharmacy claims filed in 2021, the contracted claims ingredient cost should have been \$320,203,694. However, the actual cost was \$294,345,762, which is a savings of \$25,857,932 beyond what is guaranteed in the Board's contract with Navitus. This information is laid out in the table on page 9 in Attachment B of this memo.

While this and past PillarRx's audits show an increase in contracted and actual claims ingredient costs, the savings the Board is realizing in contracted costs is also growing. From 2018 through 2020 the savings rate was about 5% each year. In 2021, the savings rate increased to 8%.

Year	Contracted Claims Ingredient Cost (\$)	Actual Claims Ingredient Costs (\$)	Savings Over Contracted Costs (\$)
2021	\$320,203,694	\$294,345,762	\$25,857,932
2020	\$285,008,053	\$269,458,485	\$15,549,567
2019	\$238,100,644	\$225,520,616	\$12,580,028
2018	\$240,881,739	\$229,085,151	\$11,796,588

The reconciliation of the pricing guarantees for the 2020 EGWP benefit found that the 900,517 pharmacy claims filed under the parameters of the contract should have cost \$146,211,604. However, the cost was instead \$137,837,164, resulting in a savings of \$8,374,440 beyond the contract guarantee. This information is laid out in the table on page 10 in Attachment B of this memo.

Dispensing fees are an agreed-upon contracted price between a pharmacy and the PBM for filling a prescription. When Navitus enters into an agreement with a pharmacy, it is not only on behalf of the Board's members but Navitus's entire book of business.

This audit shows Navitus paid \$183,503.38 less in commercial dispensing fees than expected while paying \$122,244.58 more in EGWP dispensing fees. Under Navitus's contract with the Board, there is no penalty for the underperforming EGWP dispensing fee. The lack of penalty is due to the savings the State received, which is more than the combined \$122,244.58 in dispensing fee overcharges.

Navitus attributes the underperformance of EGWP dispensing fees compared to the contractual guarantees to an issue with a handful of long-term care (LTC) pharmacy groups that have high dispensing fees. When creating the guarantees for dispensing fees in the contract, Navitus's Provider Services Team assumed all claims from these facilities would be excluded from the performance calculations (claims for LTC pharmacies are typically excluded due to their high dispensing fees). However, these pharmacies are also filling many non-LTC claims for the members. Those claims are being included in the performance calculation and are causing the results to show an underperformance regarding the dispensing fees.

ETF is satisfied with Navitus's explanation of the underperformance of EGWP dispensing fees guarantees as laid out in the contract.

As noted on pages 12 through 25 of Attachment B to this memo, PillarRx conducted audits of numerous aspects of the pharmacy contract and found all passed/were within normal variance levels.

Rebate Audit

PillarRx reviewed pharmaceutical manufacturer rebate contracts and invoices and performed an analysis to compare the contracts to ETF's claims utilization. PillarRx reviewed agreements and amendments between Navitus and eight pharmaceutical manufacturers who produced the pharmaceuticals with the highest drug spend by ETF's membership in Quarter 4 of 2020. Each contract was examined with special attention paid to the following areas:

- Base rebates
- Market share rebate
- Formulary type
- Administrative fees
- Market share calculations
- Other fees.

PillarRx found less than 5% variance. These variances were investigated and found to be from claims where ETF's coverage was not the primary or due to standard manufacturer exclusions. Overall, rebates are paid accurately and in accordance with Navitus's contract with the Board.

2021 Commercial Plan Design Audit

PillarRx examined 100% of ETF's commercial pharmacy claims from January 1, 2021, through December 31, 2021, including claims that were reversed or rejected. These claims were examined to make sure they followed contract and benefit guidelines, such as those listed below:

- Copayment rules
- Day supply limits
- Drug exclusions
- Prior authorization (PA) requirements
- Quantity limits.

PillarRx found miscellaneous, minor inconsistencies and discrepancies that were validated as appropriate by Navitus or were reprocessed correctly.

2020 EGWP Plan Design Audit

In their examination of the 2020 EGWP, PillarRx examined 100% of the Prescription Drug Event (PDE) records. PDE records are not the same as pharmacy claims as they include information regarding post-transaction adjustments between plan and

pharmacy, plan-to-plan adjustments, and plan to Center for Medicaid & Medicare (CMS) adjustments. These claims were examined to make sure they followed contract and benefit guidelines, including those listed below:

- Matched source claim files to the PDE records
- Analyzed claims for accuracy and appropriateness
- Reviewed copayments and coinsurance rates
- Drugs were charged on the correct drug formulary tier
- Low-Income Cost Sharing (LICS) calculations were correct
- Accuracy of coverage gap discount calculations.

PillarRx found miscellaneous, minor inconsistencies and discrepancies that were validated as appropriate by Navitus or were reprocessed correctly.

Invoice Reconciliation Audit

PillarRx analyzed 100% of the claim data for the year and found that Navitus is invoicing ETF accurately.

Operational Review

PillarRx reviewed Navitus' performance standards outlined in its contract with the Board. PillarRx found two performance standards Navitus failed to meet during Quarter 4 of 2020. The audit lays out those standards that Navitus failed to meet on page 23 of attachment B and notes that \$33,000 in penalties Navitus paid for failing to meet the contracted standards.

PillarRx notes that Navitus met all contractual requirements and performance standards required by the Board or paid out the appropriate penalty.

PillarRx Recommendations

In both the 2020 EGWP Design Audit and the 2021 Commercial Plan Design Audit PillarRx found one claim that Navitus processed and paid without having received the required PA form. PillarRx recommends that "the State work directly with Navitus in regards to any additional impact." These recommendations can be found in Attachment B to this memo on pages 18 and 21.

ETF reached out to Navitus regarding PA form protocols and any changes that may have been made in the company's system regarding PA forms since 2021. Navitus stated that in their system, not all PA forms remain attached to a claim and that some member PA forms are entered due to a transition period (for example, when there is a formulary change). Navitus does have a member PA auditing tool that allows for every member PA form to be retrievable and reviewable.

ETF staff will ensure all yearly audits for the pharmacy benefits program check for PA form adherence. If a pattern of claims being approved without required PA forms starts to emerge ETF will work with Navitus on a corrective action plan.

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

Attachment A: [PillarRx Pharmacy Program Oversight Executive Summary](#)

Attachment B: PillarRx Prescription Benefit Management Audit (Confidential)