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Correspondence Memorandum

Date: October 10, 2023

To: Group Insurance Board

From: Tricia Sieg, Pharmacy Benefit Programs Manager
 Office of Strategic Health Policy

Subject: Audit of Pharmacy Benefit Manager

This 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 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, 2022, through December 31, 2022
- Employer Group Waiver Plan (EGWP) pharmacy claims January 1, 2021, through December 31, 2021
- Pharmacy Network January 1, 2021, through December 31, 2021
- Pharmacy Rebates October 1, 2021, through December 31, 2021.

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

Audit Highlights

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

There were 1,772,212 commercial pharmacy claims filed in 2022, an increase of 416,385 claims from 2021. Under the terms of the Board's contract with Navitus, the

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 Electronically Signed 10/25/2023

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contracted claim ingredient cost should have been \$316,013,524 in 2022. However, the actual cost was \$303,414,066, a savings of \$12,599,458 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.

There were 835,112 pharmacy claims filed in 2021 (65,405 fewer claims than 2020 EGWP), and under the parameters of the contract, this should have cost \$151,920,942. The reconciliation of the pricing guarantees for the 2021 EGWP benefit found that the cost was instead \$151,012,782, resulting in savings of \$908,160 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 \$89,759 less in commercial dispensing fees than expected, while paying \$206,236 more in EGWP dispensing fees for each respective audit period. 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 \$206,236 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 the EGWP dispensing fees' guarantees, as laid out in the contract.

As noted on pages 12 through 22 of Attachment B to this memo, PillarRx conducted audits of numerous aspects of the pharmacy contract and found all passed and 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 2021. Each contract was examined with special attention paid to:

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

Quarter 4 of 2021 was the first quarter ETF's commercial membership being part of Navitus's drug rebate group purchasing organization (GPO). A GPO leverages a group's combined purchasing power to negotiate better drug prices and discounts with pharmaceutical manufacturers.

After examining the rebates from the first quarter of ETF's participation in Navitus's rebate GPO, PillarRx found overall variances to be within a 3% threshold. However, PillarRx found some manufacturers were slightly above the 3% variance.

2022 Commercial Plan Design Audit

PillarRx examined 100% of ETF's commercial pharmacy claims from January 1, 2022, through December 31, 2022, including claims that were reversed or rejected. These claims were examined to make sure they followed contract and benefit guidelines including:

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

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

2021 EGWP Plan Design Audit

In their examination of the 2021 EGWP, PillarRx examined 100% of the Prescription Drug Event (PDE) records. PDE records are not the same as a pharmacy claim, 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
- Confirmed drugs were charged on the correct drug formulary tier
- Verified Low-Income Cost Sharing (LICS) calculations

- Checked 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's performance standards outlined in its contract with the Board. Navitus was issued penalties for failing to meet performance standards during Quarters 2 and 4 of 2022.

For Quarter 2 of 2022, Navitus failed to meet standards set by ETF for all vendors regarding call answer timeliness, call abandonment, and timely response to electronic written inquiries. Navitus received a penalty of \$97,172.65.

For Quarter 4 of 2022, Navitus failed to notify ETF of a privacy breach in a timely manner, and failed to start investigating a grievance that was filed by a member within five business days. The totally penalty assessed for these two incidences was \$17,000.

PillarRx notes that Navitus met all contractual requirements and performance standards required by the Board or paid out the appropriate penalty when a requirement or standard was not met.

PillarRx Recommendations

In the 2021 rebate audit, PillarRx notes that while Navitus's overall variance is within a 3% threshold, some manufacturers were slightly about the 3% variance. PillarRx recommends ETF work with Navitus to understand the rebate GPO's decisions on the rebate differences.

ETF staff will continue to make sure all yearly audits examine ETF's pharmaceutical manufacturer rebate contracts and invoices. If a pattern of variances outside of the threshold emerges, ETF will work with Navitus on a corrective action plan.

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

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

Attachment B: PillarRx Prescription Benefit Management Audit (**Confidential**)