



**Audit of Prescription Drug
Claims Processed by
Express Scripts, Inc.**

MARTIN MATSON
City Comptroller

AYCHA SIRVanci, CPA
Audit Manager

City of Milwaukee, Wisconsin

March 2014

Martin Matson
Comptroller

John M. Egan, CPA
Deputy Comptroller



Glenn Steinbrecher, CPA
Special Deputy Comptroller

Toni Biscobing
Special Deputy Comptroller

Office of the Comptroller
March 3, 2014

To the Mayor and
the Honorable Common Council
City of Milwaukee

Dear Mayor Barrett and Council Members:

As a component of Internal Audit's 2013 audit work plan, the Segal Company was engaged to provide audit services to the City of Milwaukee for its self-funded medical and pharmacy plans administered by United Healthcare and Express Scripts, Inc. (ESI). The purpose of the audits was to determine if claims are processed and paid in accordance with plan provisions and industry standards.

The Segal Company has completed the ESI prescription drug claims audit which is included in the City's overall health insurance claims audit. Internal Audit has recently received the enclosed final audit report which contains findings and recommendations that highlight opportunities for ESI to provide improved services regarding specific City of Milwaukee contract stipulations.

As the City became self-insured as of January 1, 2012, the test period for the audit was calendar year 2012. The procedures that were performed included a financial analysis for the contractually guaranteed commercial population and a plan design for both the commercial and retiree populations.

The following issues were found throughout the course of the audit of ESI.

1. *In aggregate, Segal showed that ESI under-performed 2012 contractual guarantees totaling \$125,197.*
2. *ESI's reconciliation of the 2012 contractual guarantees showed an under-performance of \$337,579. This amount was paid to the City on the invoice dated July 9, 2013 per ESI.*
3. *After receiving responses to the sample claims provided, the copays Segal identified that were collected outside of plan copay parameters for the commercial population were 1,009 claims, or 0.4% of total commercial drug claims for 2012 and 5,097 claims or 4.1% of total retiree drug claims.*

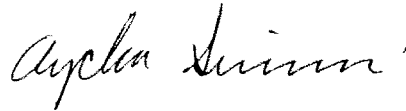
Segal believes the percentage of claims falling outside of plan design to be within industry acceptable standards and is consistent with Segal's experience with other plan sponsors.



ESI is in agreement with the aggregate shortfalls and contractual underperformance identified by the Segal Company.

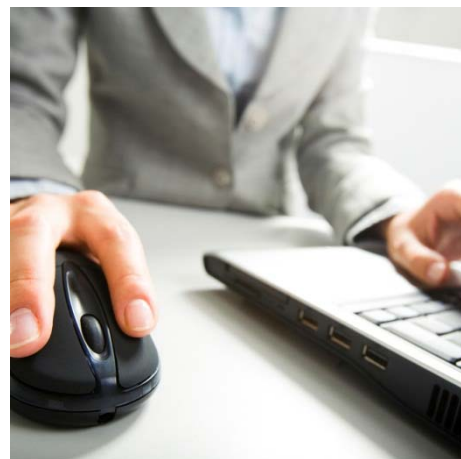
Internal Audit would like to thank all parties involved in the assistance and completion of this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Aycha Sirvanci". The signature is fluid and cursive, with a small dot at the end.

Aycha Sirvanci, CPA
Audit Manager

City of Milwaukee



PRESCRIPTION DRUG AUDIT REPORT

Period: January 1, 2012 – December 31, 2012

February 27, 2014

 Segal Consulting

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PRESCRIPTION DRUG AUDIT

Period: January 1, 2012 – December 31, 2012

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Overview

On behalf of the City of Milwaukee (“the City”), The Segal Company has completed an evaluation of the prescription drug program administered by Express Scripts (ESI). This report documents the findings of our analysis of the electronic claim records provided by ESI. An electronic file detailing prescriptions issued for participants in the City’s benefit plan for the period January 1, 2012 – December 31, 2012 was the source of the analysis. The financial analysis was run for the contractually guaranteed commercial population, and the plan design analysis was run for both the commercial population as well as the retiree population.

This analysis reviews data associated with the total plan population. Key data components and findings are illustrated throughout the report. The financial report is designed to:

- Identify areas where ESI is exceeding or falling short of contractual guarantees.
- Validate ESI’s administration of the City’s pharmacy benefits plan.

The results of this financial review will provide a vehicle for the City to monitor and measure performance versus your PBM contract and plan parameters.

Contract Audit

Summary of Plan Data reviewed

Table 1: FILL DATE PERIOD (01/01/2012 – 12/31/2012)*

	Retail	Mail	Total
Prescriptions Dispensed	229,474	27,347	256,821
Total Days of Prescription Drug Therapy	5,726,207	2,323,717	8,049,924
Total Average Wholesale Price (AWP)	\$26,201,751	\$15,273,870	\$41,475,621
Total Ingredient Costs	\$14,069,691	\$8,588,649	\$22,658,341
Total Dispensing Fees	\$229,476	\$3,346	\$232,822
Total Sales Tax	\$523	\$85	\$608
Gross Costs	\$14,299,691	\$8,592,080	\$22,891,771
Member Paid	\$2,143,640	\$569,588	\$2,784,625
Plan Paid Claim Amounts	\$12,089,178	\$8,017,928	\$20,107,106

*All figures are rounded to the nearest whole dollar amount.

- The Average Wholesale Price (AWP) is the pricing benchmark on which the discounts guaranteed in the contract will be applied.
- For the audit period, the majority of prescriptions, or 89.4%, were dispensed through retail pharmacy settings. These prescriptions represent 71.1% of the total days of prescription drug therapy dispensed.
- There was an additional \$40 in the gross costs for the plan that was not reported as paid by the member or the plan. This occurs in instances where a third party may have contributed to the total cost of the medications.

PBM CONTRACTUAL COMPLIANCE

Table 2: COMPLIANCE WITH PBM FINANCIAL GUARANTEES
Retail Paid Date Period (01/01/2012 – 12/31/2012)*

	Retail		
	Generic	Brand	Total
Total Rx's Dispensed	180,365	43,026	223,391
Total AWP Cost	\$15,176,525	\$9,698,737	\$24,875,263
Total Ingredient Cost	\$4,771,865	\$8,235,824	\$13,007,689
AWP Discount Achieved	68.56%	15.08%	
AWP Discount Contracted	71.40%	15.30%	
Dispensing Fee/Rx Achieved	\$1.00	\$1.00	
Dispensing Fee/Rx Contracted	\$1.00	\$1.00	
Discount Achieved vs. Contracted (Surplus)/ Shortfall	\$431,379	\$20,993	\$452,372
Dispensing Fee Achieved vs. Contracted (Surplus)/Shortfall	\$0	\$0	\$0
Net (Surplus)/ Shortfall Actual to Contracted	\$431,379	\$20,993	\$452,372

*All figures are rounded to the nearest whole dollar amount.

- According to the ESI contract, retail AWP discount and average dispensing fee guarantees exclude specialty medications, compounds, paper claims, OTC products, and vaccines.
- The achieved retail discounts under-performed the minimum contractual guarantees resulting in a shortfall of \$452,372.
- The achieved retail dispensing fees performed at the contracted rate.
- Overall, ESI under-performed the AWP discount and dispensing fee contractual guarantees resulting in a shortfall of \$452,372.

Table 3: COMPLIANCE WITH PBM FINANCIAL GUARANTEES
Mail Paid Date Period (01/01/2012 – 12/31/2012)*

	Mail		
	Generic	Brand	Total
Total Rx's Dispensed	19,359	6,193	25,552
Total AWP Cost	\$5,166,037	\$3,877,099	\$9,043,136
Total Ingredient Cost	\$1,255,665	\$3,003,153	\$4,258,818
AWP Discount Achieved	75.69%	22.54%	
AWP Discount Contracted	73.75%	22.70%	
Dispensing Fee/Rx Achieved	\$0.12	\$0.12	
Dispensing Fee/Rx Contracted	\$0.13	\$0.13	
Discount Achieved vs. Contracted (Surplus)/ Shortfall	(\$100,420)	\$6,155	(\$94,265)
Dispensing Fee Achieved vs. Contracted (Surplus)/Shortfall	\$131	\$59	\$190
Net (Surplus)/ Shortfall Actual to Contracted	(\$100,289)	\$6,214	(\$94,074)

*All figures are rounded to the nearest whole dollar amount.

- According to the ESI contract, mail-order AWP discount and average dispensing fee guarantees specialty medications, compounds, paper claims, OTC products, and vaccines.
- The achieved mail-order AWP discounts over-performed the minimum contractual guarantees resulting in a surplus of \$94,265.
- The achieved mail-order dispensing fees over-performed the minimum contractual guarantees resulting in a surplus of \$190.
- Overall, ESI over-performed the mail-order AWP discount and dispensing fee contractual guarantees resulting in a surplus of \$94,074.

Table 4: COMPLIANCE WITH PBM FINANCIAL GUARANTEES
Specialty Paid Date Period (01/01/2012 – 12/31/2012)*

	Specialty		
	Retail	Mail	Total
Total Rx's Dispensed	1,604	1,102	2,706
Total AWP Cost	\$837,142	\$4,587,256	\$5,424,397
Total Ingredient Cost	\$555,799	\$3,896,615	\$4,452,414
AWP Discount Achieved	33.61%	15.06%	
AWP Discount Contracted	11.57%	14.00%	
Dispensing Fee/Rx Achieved	\$1.00	\$0.12	
Dispensing Fee/Rx Contracted	\$1.00	\$0.13	
Discount Achieved vs. Contracted (Surplus)/ Shortfall	(\$184,485)	(\$48,425)	(\$232,910)
Dispensing Fee Achieved vs. Contracted (Surplus)/Shortfall	(\$4)	(\$10)	(\$14)
Net (Surplus)/ Shortfall Actual to Contracted	(\$184,490)	(\$48,435)	(\$232,925)

*All figures are rounded to the nearest whole dollar amount.

- According to the ESI contract, specialty AWP discount and average dispensing fee guarantees excluded compounds, paper claims, OTC products, and vaccines.
- The achieved specialty AWP discounts over-performed the minimum contractual guarantees resulting in a surplus of \$232,910.
- The achieved specialty dispensing fees over-performed the minimum contractual guarantees resulting in a surplus of \$14.
- Overall, ESI over-performed the specialty AWP discount and dispensing fee contractual guarantees resulting in a surplus of \$232,925.

Plan Design Analysis

Table 5: RETAIL AND MAIL COPAYS COMMERCIAL
Fill Date Period (01/01/2012-12/31/2012)*

Plan	Total Prescriptions	Total Copay Collected	Copay Percent of Total Cost	Flagged (%)
2012 MPA Basic Plan	6,166	\$86,138	21.3%	0.6%
2012 MPA Choice Plan	40,591	\$210,040	6.0%	0.3%
2012 Plan	210,088	\$280,657	1.5%	0.4%
Total	256,845	\$576,835	2.5%	0.4%

*All figures are rounded to the nearest whole dollar amount.

- Segal initially flagged 2,255 claims, or 0.9% of total commercial drug claims for the 2012 plan year that fell outside of plan design.
- Segal submitted a stratified sample of these claims to ESI for further clarification and upon receiving additional information, the total number of claims falling outside plan design was reduced to 1,009 claims, or 0.4% of total commercial drug claims.

Table 6: RETAIL AND MAIL COPAYS RETIREE
Fill Date Period (01/01/2012-12/31/2012)*

Plan	Total Prescriptions	Total Copay Collected	Copay Percent of Total Cost	Flagged (%)
Standard Coverage	117,362	\$1,362,136	13.67%	4.1%
Low Income Subsidized Coverage	7,056	\$3,769	0.76%	4.7%
Total	124,418	\$1,365,904	2.50%	4.1%

*All figures are rounded to the nearest whole dollar amount.

- Segal flagged 5,097 claims, or 4.1% of total retiree drug claims for the 2012 plan year that fell outside of plan design.
- Segal submitted a stratified sample of these claims to ESI for further clarification and upon receiving ESI's response Segal identified that there were inconsistencies in the data fields received in the claims file by Segal and in data fields provided in the sample responses.
- These inconsistencies primarily centered around formulary status of a medication on the date it was adjudicated.

Summary of Findings

- In aggregate, Segal showed that ESI under-performed 2012 contractual guarantees totaling \$125,197.
- ESI's reconciliation of the 2012 contractual guarantees showed an under-performance of \$337,579. This amount was paid to the City on the invoice dated July 9, 2013 per ESI.
- After receiving responses to the sample claims provided, the copays Segal identified that were collected outside of plan copay parameters for the commercial population were 1,009 claims, or 0.4% of total commercial drug claims for 2012 and 5,097 claims or 4.1% of total retiree drug claims.
 - Segal believes the percentage of claims falling outside of plan design to be within industry acceptable standards and is consistent with Segal's experience with other plan sponsors.