



*North Carolina*  
**State Health Plan**  
FOR TEACHERS AND STATE EMPLOYEES



## **Auditing Services Results**

*Board of Trustees Meeting*

May 13, 2016

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*A Division of the Department of State Treasurer*

# Presentation Overview

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- Audit Process
- Medical Claims Audits
- Pharmacy Audits

# Why Do We Audit?

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- To ensure contractual compliance
- To identify pricing errors
- To assess vendors' internal controls
- To validate benefit design is administered correctly
- To validate vendor performance guarantees
- To comply with State laws/regulations



# Audit Process

## Audit Workflow

### Audit Plan

- Determine objective and scope
- Assessment of data needs
- Establish timeframes

### Conduct Audit

- Review data
- Onsite fieldwork

### Findings

- Document findings
- Root cause analysis
- Establish corrective action plan

### Finalized Audit Report

- Review
- Recommend changes or improvements
- Sign off

### Follow Up

- Monitor correction plan
- Collect funds for missed performance guarantees

# Medical Claims Audits

# Medical Claims Audit Overview

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- **Objectives:**

- To determine if claims are processed and paid by the Third Party Administrator (TPA) in accordance with the contract
- To determine whether the TPA met claims accuracy performance guarantees (an annual medical claims processing financial accuracy rate of 99%, payment accuracy rate of 99% and a process accuracy rate of 97% for the contract period ending December 31, 2015)

- **Auditor:**

- Thomas & Gibbs CPAs, PLLC

- **Frequency:**

- Quarterly, with an annual report delivered at the end of each fiscal year

- **Methodology:**

- “Standard” and “focused” audits of statistically valid, random samples of medical claims are audited for processing and pricing accuracy

- **Status:**

- Thomas & Gibbs has completed the FY 2014-15 reports

# Medical Claims Audit Findings and Follow-up

July 2014 - December 2015								
	Performance Guarantee	QE 9/30/14	QE 12/31/14	QE 3/31/15	QE 6/30/15	Fiscal Year 2014-15	QE 9/30/15	QE 12/31/15
<b>Standard Medical Claims Audit</b>								
Process Accuracy Rate	97%	99.40%	100.00%	99.80%	100.00%	<b>99.80%</b>	100.00%	100.00%
Payment Accuracy Rate	99%	99.40%	100.00%	99.80%	100.00%	<b>99.80%</b>	100.00%	100.00%
Financial Accuracy Rate	99%	99.97%	100.00%	99.99%	100.00%	<b>99.99%</b>	100.00%	100.00%
<b>"Focused Audit" CDHP Claims</b>								
Process Accuracy Rate	N/A	N/A	N/A	100.00%	N/A			N/A
Payment Accuracy Rate	N/A	N/A	N/A	100.00%	N/A			
Financial Accuracy Rate	N/A	N/A	N/A	100.00%	N/A			

- **Processing error rate** is the total number of claims noted with claim payment errors divided by the total number of claims in the sample.
- **Payment error rate** is the total absolute dollar amount of overpayments or underpayments resulting from errors in the claims tested divided by the total dollar amount of claims in the sample.
- **Financial accuracy** is the total dollar amount in the audit sample processed accurately divided by the total dollar amount processed in the audit sample. Absolute dollar amounts are used so underpayments do not offset overpayments.
- **Follow-up:** Some audit errors uncover more systematic or process issues that need further review. When necessary, the Plan works with the TPA to develop a corrective action plan. Once developed, the Plan does a six month and an annual follow-up review with BCBSNC to monitor action plan results.

# Medical Claims Audit - Quality Management Reviews

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- The Plan's Quality Team performs additional TPA process quality checks throughout the year. During the 2014-15 fiscal year the following TPA processes were reviewed:
  - Debt Set Off
  - Enrollment Retro-Termination processing
  - Duplicate Claims
  - End-Stage Renal Disease claims processing





# Pharmacy Audits

# Audits Conducted on the Pharmacy Benefit Manager

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- Pharmacy Financial Audit
- Pharmacy Claims Audit
- Pharmacy Plan Design Accuracy Audit



# Pharmacy Financial Audit Overview

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## Objectives:

- To verify the Pharmacy Benefit Manager (PBM) (Express Scripts/ESI) has adjudicated pharmacy claims consistent with the pricing terms indicated in the contract
- To determine whether the PBM met the financial performance guarantees

## Auditors:

- Segal Companies & TRICAST Inc.

## Frequency:

- Quarterly with an annual report delivered after the contract year

## Methodology:

- Detailed biweekly pharmacy claims files are analyzed for pricing and invoicing accuracy

## Status:

- The Segal Company completed for October 1, 2013 – December 31, 2014
- TRICAST Inc. completed Contract year January 1, 2015 – December 31, 2015

# Pharmacy Financial Audit Components

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- **Invoice reconciliation:** A claims data file covering the period of review is received from ESI and compared to invoice records obtained from ESI and also matched to the SHP's paid PBM invoice report.
- **Claims Average Wholesale Price (AWP):** The AWP reported for each claim by ESI is examined and compared to the AWP independently obtained from Medi-Span, using an 11-digit national drug code (NDC) and actual dispensing date for each claim.
- **Dispensing Fees:** Test of dispensing fee guarantees involves aggregating total dispensing fees paid for all non-member resubmitted claims filled at mail and retail pharmacies and comparing the actual dispensing fee charged to the amount expected based on the contractual guarantee.
- **Discount guarantees:** Claims are aggregated according to terms of the agreement. Claims excluded from discount guarantees are identified and separated from all other claims. The contract terms state that the discount and dispensing fee guarantees are guaranteed on a dollar-for-dollar basis. ESI may not offset a shortfall generated in one guarantee category (retail/mail, brand/generic) with a surplus generated in another.
- **Duplicate Claims:** Criteria is applied to identify duplicate claims, including same member ID, same date of service, and same national drug code (NDC).

# 2013 - 2014 Results

# Pharmacy Audit Components Results – The Segal Company

	QE 12/31/13	QE 3/31/14	QE 6/30/14	QE 9/30/14	QE 12/31/14	Contract Year
<b>Invoice Reconciliation</b>	No issues noted	No issues noted	No issues noted	No issues noted	No issues noted	No issues noted
<b>AWP</b>	No issues noted	No issues noted	No issues noted	No issues noted	No issues noted	No issues noted
<b>Dispensing Fees</b>	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted
<b>Aggregate Achieved Discount</b>	Small shortfall in discounts noted	Small shortfall in discounts noted	Small shortfall in discounts noted	Shortfall in aggregate discounts noted	Shortfall in aggregate discounts noted	Shortfall in aggregate discounts noted
<b>Specialty Drug Discount</b>	No issues noted	No issues noted	No issues noted	No issues noted	No issues noted	No issues noted
<b>Duplicate Claims</b>	Potential duplicates identified for review by Plan	Potential duplicates identified for review by Plan	Potential duplicates identified for review by Plan	Potential duplicates identified for review by Plan	Potential duplicates identified for review by Plan	N/A

At the end of the contract year, the PBM is required to reconcile with the Plan any shortfall of financial guarantees. Following the end of the 15-month contract “year” (October 1, 2013 to December 31, 2014), ESI reimbursed the Plan \$3.3 million for dispensing fee and discount guarantee shortfalls.

# 2015 Results

# Pharmacy Audit Components Results – Tricast

	QE 03/31/15	QE 06/30/15	QE 09/30/15	QE 12/31/15
<b>Invoice Reconciliation</b>	No issues noted	No issues noted	No issues noted	No issues noted
<b>AWP</b>	Variance noted	Variance noted	Variance noted	Variance noted
<b>Dispensing fee</b>	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted	Shortfall in aggregate dispensing fee noted
<b>Aggregate achieved discount</b>	Over performance in aggregate discount noted	Over performance in aggregate discount noted	Shortfall in aggregate discount noted	Shortfall in aggregate discount noted
<b>Specialty drug discount</b>	Variance noted	Variance noted	Variance noted	Variance noted
<b>Duplicate Claims</b>	No issues noted	No issues noted	No issues noted	No issues noted

At the end of the contract year, the PBM is required to reconcile with the Plan any shortfall of financial guarantees. The preliminary audit report issued by Tricast for CY 2015 finds ESI owes the plan approximately \$8.6 million, net of a previous payment received, for dispensing fees and discount guarantee shortfalls.



# Pharmacy Claims Audit Overview

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- **Objectives:**
  - To determine if claims are processed and paid by the PBM in accordance with the contract
  - To determine whether the PBM met the claims accuracy performance guarantee (an annual medical claims processing error rate of no more than 0.5%)
- **Auditor:**
  - Thomas & Gibbs CPAs, PLLC
- **Frequency:**
  - Quarterly, with an annual report delivered at the end of each fiscal year
- **Methodology:**
  - Statistically valid, random samples of pharmacy claims are audited for processing and pricing accuracy
- **Status:**
  - Thomas & Gibbs has completed the FY 2013-14 reports

# Pharmacy Claims Audit Findings

July 2013-December 2015

	Performance Guarantee	QE 9/30/14	QE 12/31/14	QE 3/31/15	QE 6/30/15	Year End 14/15	QE 9/30/15	QE 12/31/15
<b>Processing Error Rate</b>	1.5% or less	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Payment Error Rate</b>	1.5% or less	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Financial Accuracy</b>	99% or higher	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

- **Processing error rate** is the total number of claims noted with claim payment errors divided by the total number of claims in the sample.
- **Payment error rate** is the total absolute dollar amount of overpayments or underpayments resulting from errors in the claims tested divided by the total dollar amount of claims in the sample.
- **Financial accuracy** is the total dollar amount in the audit sample processed accurately divided by the total dollar amount processed in the audit sample. Absolute dollar amounts are used so underpayments do not offset overpayments.

# Pharmacy Plan Design Accuracy Audit Overview

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- **Objectives:**
  - To verify the Pharmacy Benefit Manager (PBM) (Express Scripts/ESI) has accurately administered benefit provisions consistent with the contract and approved plan design documentation
- **Auditor:**
  - TRICAST Inc.
- **Frequency:**
  - Plan Design Accuracy Audits are annual with an annual report delivered after the contract year
- **Methodology:**
  - Systematically re-adjudicating 100% of paid prescription drugs analyzing benefit plan parameters.
- **Status:**
  - Contract year January 1, 2014 – December 31, 2014 completed

# Pharmacy Plan Design Accuracy Audit Components

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- **Copayments/Coinsurance:** Represents the dollar amount required to be paid by the member when a prescription drug is purchased.
- **Exclusions:** Specifies the drugs and products that a plan did not or would not cover unless there is a Prior Authorization
- **Quantity Limits:** Included in plans to ensure safety and appropriate utilization.
- **Step Therapy:** Requires the trial and failure of one or more prerequisite drugs before the step therapy medication will be covered. It promotes the appropriate use of equally effective but lower cost drugs, most often generics, as first line therapy.
- **Prior Authorization:** Manages the use of certain medications that are high cost or have the potential for misuse. Drugs requiring prior approval have detailed criteria that must be met before the prior authorization can be granted.
- **Early Refill:** Describes the limitation of days and quantity allowed to be filled for specific medications.

# Pharmacy Plan Design Accuracy Audit Components Results

	Traditional 70/30	Enhanced 80/20	Consumer-Directed Health Plan
<b>Copayment</b>	<0.2% Variance	<0.2% Variance	No issues noted
<b>Exclusions</b>	Variance noted	Variance noted	Variance noted
<b>Quantity Limits</b>	No issues noted	No issues noted	No issues noted
<b>Step Therapy</b>	No issues noted	No issues noted	No issues noted
<b>Prior Authorization</b>	No issues noted	No issues noted	No issues noted
<b>Early Refill</b>	No issues noted	No issues noted	No issues noted