

**PBM Contract Audit Findings of Benecard  
for Commonwealth of Pennsylvania, Public School  
Employees' Retirement System**

**January 2005 – December 2005**



INDEPENDENT PHARMACEUTICAL CONSULTANTS, INC.

The Commonwealth of Pennsylvania, Public School Employees' Retirement System (PSERS) has retained Independent Pharmaceutical Consultants, Inc. (IPC) to audit prescription claims administered under its contract with Benecard. This audit report reflects the claims incurred from January 1, 2005 to December 31, 2005. An electronic audit was performed against 100% of the 1,118,546 prescription drugs claims during the period. These claims accounted for total costs of \$73,545,085.18. These claims were subjected to various electronic audit queries to identify claims that appeared to vary from the established contractual obligations for PSERS being administered by Benecard. This report was sent to Benecard for their review and response. IPC has retained the detailed claim file and all related analytical work that was used to perform the audit this detail will be made available to Benecard to assist in resolution of issues.

### **Contracted Discounts**

PSERS contracted with Benecard to provide discounted prescription drugs through a subcontractor, Express Scripts, Inc. (ESI) who offers a contracted network of retail pharmacies and an exclusive mail order pharmacy. IPC audited for correct application of contracted discounts and dispensing fees at these contracted pharmacy providers.

### **Retail Pharmacies**

PSERS contracted with Benecard to receive a guaranteed average discount of Average Wholesale Price (AWP) less 15% on Single Source Brand claims, and the lower of 94% of Health Care Finance Administration – Federal Upper Limit (HCFA-FUL) or 33% off AWP for both Tier One and Tier Two claims. The contracted pricing arrangement also includes a \$1.45 dispensing fee per retail claim. IPC reviewed all claims incurred during the 2005 audit period to determine whether or not Benecard met these guarantees. IPC has determined that Benecard has neither met this guarantee in regards to ingredient cost discounts nor dispensing fee discounts. Therefore, Benecard owes PSERS \$814,301.81 for these apparent overpayments. See the chart below for details:

	<b>SS BRAND</b>	<b>TIER 1</b>	<b>TIER 2</b>	<b>TOTAL</b>
AWP	\$21,699,813.39	\$10,070,011.92	\$7,324,571.77	\$39,094,397.08
HCFA-FUL	\$0.00	\$4,778,699.34	\$0.00	\$4,778,699.34
CLAIM INGREDIENT COST	\$18,220,574.19	\$4,282,530.29	\$5,647,186.93	\$28,150,291.41
CLAIM DISPENSING FEE	\$324,988.87	\$472,453.75	\$196,599.20	\$994,041.82
CLAIM COUNT	208,466	297,720	127,927	634,113
CALCULATED INGREDIENT COST	\$18,444,841.38	\$4,491,977.38	\$4,907,463.09	\$27,844,281.86
CALCULATED DISPENSING FEE	\$302,275.70	\$431,694.00	\$185,494.15	\$919,463.85
CLAIM INGREDIENT COST OVER CALCULATED GUARANTEE	\$0.00	\$0.00	\$739,723.84	\$739,723.84
CLAIM DISPENSING FEE OVER CALCULATED GUARANTEE	\$22,713.17	\$40,759.75	\$11,105.05	\$74,577.97
<b>TOTAL CLAIM AMOUNT OVER CALCULATED GUARANTEE</b>	<b>\$22,713.17</b>	<b>\$40,759.75</b>	<b>\$750,828.89</b>	<b>\$814,301.81</b>

**Benecard's Initial Response:** Pending review from ESI

**IPC's Conclusion – 10/16/2007:** PSERS has contracted with Benecard for the administration of the prescription drug program. If Benecard has subcontracted certain services to other vendors, it is Benecard's responsibility to manage their subcontractor arrangement to the requirements defined in the PSERS agreement. Benecard has had the initial audit report since August 23, 2007 and has been given adequate time to respond to the report. Therefore, IPC still considers these claims in error, and the plan is owed \$814,301.81 for this error.

**Benecard's Response 4/14/2008:** See attached spreadsheet (2005 Discount Guarantee). Per spreadsheet there is a surplus for retail claims of \$1,813,098.77, contract obligations have been met, no payment owed.

**IPC's Conclusion:** In appendix C of the contract it states, "Any excess in a single component may be used to make up for a shortfall in another component." Given the context of the contract, IPC agrees that Benecard can use an excess in one

component (i.e. Single Source Brand, Tier 1 and Tier 2) to make up for a shortfall in another component. Therefore, IPC has revised its analysis of the claims and the net amount remaining to fulfill the contract guarantee is \$380,587.52.

The following is a summary of IPC's analysis:

DRUG TYPE	SS BRAND	TIER 1	TIER 2	TOTAL
AWP	\$21,699,813.39	\$10,070,011.92	\$7,324,571.77	\$39,094,397.08
HCFAFUL	\$0.00	\$4,778,699.34	\$0.00	\$4,778,699.34
INGREDIENT COST	\$18,220,574.19	\$4,282,530.29	\$5,647,186.93	\$28,150,291.41
DISPENSING FEE	\$324,988.87	\$472,453.75	\$196,599.20	\$994,041.82
CLAIM TOTAL COST	\$18,545,563.06	\$4,754,984.04	\$5,843,786.13	\$29,144,333.23
RXCNT	208,466	297,720	127,927	634,113
CALCULATED INGRED COST	\$18,444,841.38	\$4,491,977.38	\$4,907,463.09	\$27,844,281.86
CALCULATED DISP FEE	\$302,275.70	\$431,694.00	\$185,494.15	\$919,463.85
CALCULATED TOTAL COST	\$18,747,117.08	\$4,923,671.38	\$5,092,957.24	\$28,763,745.71
<b>TOTAL AMOUNT OVER GUARANTEE</b>	<b>-\$201,554.02</b>	<b>-\$168,687.34</b>	<b>\$750,828.89</b>	<b>\$380,587.52</b>

### Mail Order Pharmacy

PSERS has contracted with Benecard to receive a guaranteed average discount of AWP (Average Wholesale Price) less 25% on Single Source Brand claims and the lower of 94% of HCFA-FUL or 33% off AWP for both Tier One and Tier Two claims. The contracted pricing arrangement also includes a \$0.00 dispensing fee per mail claim. IPC reviewed all of the claims incurred during the 2005 audit period to determine whether or not Benecard met these guarantees. It appears, based on this analysis, that Benecard has neither met this guarantee in regards to ingredient cost discounts nor dispensing fee discounts. Therefore, our initial finding is that Benecard owes PSERS \$492,238.31 for these apparent overpayments. See the chart below for details:

	SS BRAND	TIER 1	TIER 2	TOTAL
AWP	\$29,252,543.15	\$12,385,418.21	\$7,972,978.55	\$49,610,939.92
HCFA-FUL	\$0.00	\$5,916,492.65	\$0.00	\$5,916,492.65
CLAIM INGREDIENT COST	\$21,966,251.50	\$5,372,181.45	\$5,799,122.11	\$33,137,555.06
CLAIM DISPENSING FEE	\$2,152.45	\$4,377.65	\$1,637.60	\$8,167.70
CLAIM COUNT	95,413	103,928	42,679	242,020
CALCULATED INGREDIENT COST	\$21,939,407.36	\$5,561,503.09	\$5,341,895.63	\$32,842,806.08
CALCULATED DISPENSING FEE	\$0.00	\$0.00	\$0.00	\$0.00
CLAIM INGREDIENT COST OVER CALCULATED GUARANTEE	\$26,844.14	\$0.00	\$457,226.48	\$484,070.61
CLAIM DISPENSING FEE OVER CALCULATED GUARANTEE	\$2,152.45	\$4,377.65	\$1,637.60	\$8,167.70
<b>TOTAL CLAIM AMOUNT OVER CALCULATED GUARANTEE</b>	<b>\$28,996.59</b>	<b>\$4,377.65</b>	<b>\$458,864.08</b>	<b>\$492,238.31</b>

**Benecard's Initial Response:** The PSERS cost proposal outlines the pharmacy network rates and fee schedule associated with the adjudication of mail prescriptions. As concluded by IPC in their 2004 audit, the mail service rate quoted are defined as applying to claims for a 35 to 90 day supply of medication. As, an additional service, prescriptions for a 1-34 day supply can also be filled through mail order. The pricing identified for prescriptions filled by mail services for a day supply of 1-34 days roughly follows the retail pricing structure, which an AWP discount of 15% for brands and 50% for generics and includes a dispensing fee of \$1.45. The above calculated ingredient cost and calculated dispensing fees need to be re-evaluated and claims under a 34 day supply need to follow the above referenced dispensing fees.

**IPC's Conclusion – 10/16/2007:** IPC has reviewed Benecard's response and agrees with their conclusion regarding the mail order claims for less than a 35 days supply. IPC has modified its original findings. IPC's conclusion regarding the mail discounts is as follows:

DRUG TYPE	SS BRAND	TIER 1	TIER 2	TOTAL
AWP	\$29,252,543.15	\$12,385,418.21	\$7,972,978.55	\$49,610,939.92
HCFA-FUL	\$0.00	\$5,916,492.65	\$0.00	\$5,916,492.65
INGREDIENT COST	\$21,966,251.50	\$5,372,181.45	\$5,799,122.11	\$33,137,555.06
DISPENSING FEE	\$2,152.45	\$4,377.65	\$1,637.60	\$8,167.70
CLAIM COUNT	95,413	103,928	42,679	242,020
CALCULATED INGRED COST	\$21,977,048.65	\$5,578,704.78	\$5,324,014.88	\$32,879,768.31
CALCULATED DISP FEE	\$2,115.55	\$4,351.45	\$1,631.25	\$8,098.25
INGREDIENT COST OVER GUARANTEE	-\$10,797.15	-\$206,523.33	\$475,107.23	\$257,786.75
DISPENSING FEE OVER GUARANTEE	\$36.90	\$26.20	\$6.35	\$69.45
<b>TOTAL AMOUNT OVER GUARANTEE</b>	<b>-\$10,760.25</b>	<b>-\$206,497.13</b>	<b>\$475,113.58</b>	<b>\$257,856.20</b>

**Benecard's Response 4/14/2008:** See attached spreadsheet (2005 Discount Guarantee). Per spreadsheet there is a surplus for mail claims of \$717,600.19, contract obligations have been met, no payment owed. Per response ingredient cost and dispensing fees for claims paid at retail or mail have been met, no errors identified. Per contract (Appendix C Prescription pricing schedule) "Any excess in a single component may be used to make up for a shortfall in another component".

**IPC's Conclusion:** In appendix C of the contract it states, "Any excess in a single component may be used to make up for a shortfall in another component." Given the context of the contract, IPC agrees that Benecard can use an excess in one component (i.e. Single Source Brand, Tier 1 and Tier 2) to make up for a shortfall in another component. Therefore, IPC has previously revised its analysis of the claims and the net amount remaining to fulfill the contract guarantee is unchanged at \$257,856.20. The following is a summary of IPC's analysis:

DRUG TYPE	SS BRAND	TIER 1	TIER 2	TOTAL
AWP	\$29,252,543.15	\$12,385,418.21	\$7,972,978.55	\$49,610,939.92
HCFAFUL	\$0.00	\$5,916,492.65	\$0.00	\$5,916,492.65
INGREDIENT COST	\$21,966,251.50	\$5,372,181.45	\$5,799,122.11	\$33,137,555.06
DISPENSING FEE	\$2,152.45	\$4,377.65	\$1,637.60	\$8,167.70
CLAIM TOTAL COST	\$21,968,403.95	\$5,376,559.10	\$5,800,759.71	\$33,145,722.76
RXCNT	95,413	103,928	42,679	242,020
CALCULATED INGRED COST	\$21,977,048.65	\$5,578,704.78	\$5,324,014.88	\$32,879,768.31
CALCULATED DISP FEE	\$2,115.55	\$4,351.45	\$1,631.25	\$8,098.25
CALCULATED TOTAL COST	\$21,979,164.20	\$5,583,056.23	\$5,325,646.13	\$32,887,866.56
<b>TOTAL AMOUNT OVER GUARANTEE</b>	<b>-\$10,760.25</b>	<b>-\$206,497.13</b>	<b>\$475,113.58</b>	<b>\$257,856.20</b>

## Rebates

PSERS has contracted with Benecard in 2005 to receive a minimum guarantee per rebate per claim of \$1.75 per retail claim and \$4.50 per Mail Order claim. IPC reviewed all of the claims incurred during the 2005 audit period and compared them to the rebates received by PSERS for the claims incurred during 2005 to determine whether or not Benecard met the minimum rebate guarantees. IPC has determined that Benecard has not met the minimum rebate guarantee. Therefore, Benecard owes PSERS \$639,874.63 for these underpayments. See the chart below for details, by calendar quarter:

PERIOD	# OF MAIL CLAIMS	# OF RETAIL CLAIMS	CALCULATED MAIL REBATES	CALCULATED RETAIL REBATES	TOTAL CALCULATED REBATES	TOTAL RECEIVED	VARIANCE
1st qtr 2005	59,470	270,048	\$267,615.00	\$472,584.00	\$740,199.00	\$604,043.35	\$136,155.65
2nd qtr 2005	58,720	274,470	\$264,240.00	\$480,322.50	\$744,562.50	\$579,373.92	\$165,188.58
3rd qtr 2005	61,599	282,892	\$277,195.50	\$495,061.00	\$772,256.50	\$605,530.86	\$166,725.64
4th qtr 2005	62,231	291,136	\$280,039.50	\$509,488.00	\$789,527.50	\$617,722.74	\$171,804.76
<b>TOTAL</b>					<b>\$3,046,545.50</b>	<b>\$2,406,670.87</b>	<b>\$639,874.63</b>

**Benecard's Initial Response:** Rebates received in a given calendar quarter are not necessarily indicative of rebates to be paid by manufacturers on claims incurred during that calendar quarter. Pending review by ESI

**IPC's Conclusion – 10/16/2007:** PSERS has contracted with Benecard for the administration of the prescription drug program. If Benecard has subcontracted certain services to other vendors, it is Benecard's responsibility to manage their subcontractor arrangement to the requirements defined in the PSERS agreement. Benecard has had the initial audit report since August 23, 2007 and has been given adequate time to respond to the report. Therefore, IPC still considers these claims in error, and the plan is owed \$639,874.63 for this error.

**Benecard's Response 4/14/2008:** Please see the attached allocation report (titled "May 2006 Allocation") that shows that for 2005 PSERS was paid \$2,386,774.67 in rebates. In 2005 PSERS was under the Marketshare rebate program so any attempt to use a per script rebate amount to recalculate the amount paid would not be applicable. Please note the ESI rebate report for first quarter 2005 shows rebates of \$584,147.15, Benecard credited PSERS \$604,043.35 on invoice, a difference of \$19,896.20 which are 2004 rebates are not payable to PSERS, thus the finance departments will reconcile.

**IPC's Conclusion:** As stated in Appendix E of the PSERS' contract with Benecard:

- Express Scripts guarantees that PSERS will receive 100% of the rebates for retail claims and 97% of the rebates for mail order claims. In addition ESI guarantees through December 31, 2005 a minimum rebate per prescription drug claim submitted electronically by a participating pharmacy (excluding injectable medications dispensed through the Specialty Pharmacy Program) and approved for payment by ESI, excluding claims subsequently reversed by the submitting pharmacy.
- This guarantee will be \$1.72 per all retail prescription and \$4.50 per all mail prescription.

The contract clearly states that PSERS is guaranteed a minimum rebate per claim through December 21, 2005. Benecard has failed to meet its minimum guarantee per claim. Therefore, IPC still considers the outstanding \$639,874.63 in rebate payments to be in error.

**Audit Conclusion**

IPC's audit of ingredient cost and dispensing fees for claims incurred by PSERS' Plan between January and December 2005 finds a total amount in error of \$1,278,318.35.

The following chart represents a summary of the errors identified in the audit:

<b>ITEM</b>	<b>\$ Amount of Error</b>
<b>Retail Pricing</b>	\$380,587.52
<b>Mail Pricing</b>	\$257,856.20
<b>Rebates</b>	\$639,874.63
<b>Total Errors</b>	<b>\$1,278,318.35</b>

Update - Benecard has provided adequate explanation for the ingredient cost and dispensing fees of \$1,278,000.00 that was identified by the audit. PSERS no longer considers this an error. Donald J. Halke, 06/18/2009