



US OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

**AUDIT OF THE
RURAL CARRIER BENEFIT PLAN'S
PHARMACY OPERATIONS
AS ADMINISTERED BY CAREMARK, INC.
2003 – 2005**

Report No. 1H-01-00-07-013

Date: March 17, 2009

--CAUTION--

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Pharmacy Drug Program
Contract CS 1073
Rural Carrier Benefit Plan
Plan Code 38

Caremark, Inc.
Northbrook, Illinois

REPORT NO. 1H-01-00-07-013

DATE: March 17, 2009

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
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Contract CS 1073
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Caremark, Inc.
Northbrook, Illinois

REPORT NO. 1H-01-00-07-013

DATE: March 17, 2009

The Office of the Inspector General has completed a performance audit of the 2003 through 2005 Rural Carrier Benefit Plan pharmacy operations as administered by Caremark, Inc. The primary objective of the audit was to determine if Caremark complied with the regulations and requirements contained within its contract with RCBP and Contract CS 1073 (between RCBP and the Office of Personnel Management). The audit was conducted in Northbrook, Illinois from January 22 through February 2, 2007 and from February 26 through March 23, 2007.

The audit showed that the 2003 through 2005 RCBP pharmacy operations were in compliance with the contracts.

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	2
III. AUDIT RESULTS	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT	6
V. SCHEDULE A – CONTRACT CHARGES	

I. INTRODUCTION AND BACKGROUND

INTRODUCTION

As authorized by the Inspector General Act of 1978, as amended, we conducted an audit of the 2003 through 2005 Rural Carrier Benefit Plan's (RCBP) pharmacy operations as administered by Caremark, Inc. (Caremark). The audit field work was conducted at Caremark's offices in Northbrook, Illinois, from January 22 through February 2, 2007 and from February 26 through March 23, 2007. Additional audit work was completed at our Washington, D.C. office.

BACKGROUND

The Federal Employees' Benefit Plan (FEHBP) was established by the Federal Employees' Health Benefits (FEHB) Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The Office of Personnel Management's (OPM) Center for Retirement and Insurance Services has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers that provide service benefits, indemnity benefits, or comprehensive medical services.

RCBP has entered into a Government-wide contract (CS 1073) with the OPM to provide a health benefit plan authorized by the FEHB Act. RCBP has contracted directly with Caremark to manage the delivery and financing of prescription drug benefits for RCBP health benefit purchasers.

This is our first audit of the RCBP pharmacy benefit operations as administered by Caremark.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether Caremark's charges to the FEHBP and services provided to FEHBP members were in accordance with the terms of the contracts. Specifically, our objectives were as follows:

Claim Payments

- To determine whether Caremark complied with contract provisions stated in its contract with RCBP relative to benefit payments, and to determine if claims were properly adjudicated.

Processing and Administrative Fees

- To determine whether processing and administrative fees charged to the FEHBP were in compliance with the terms of the contract between Caremark and RCBP.
- To identify areas of the contract between Caremark and RCBP which require improvement.

Clinical Management Savings

- To determine if costs charged to the FEHBP for Clinical Management Programs were charged in accordance with the terms of the contract between Caremark and RCBP.
- To determine if savings amounts reported were properly calculated.

SCOPE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

We reviewed the RCBP Annual Accounting Statements for contract years 2003 through 2005. During this period, Caremark paid approximately [REDACTED] in prescription drug charges (see Schedule A).

In planning and conducting our audit, we obtained an understanding of Caremark's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas for audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based

on our testing, we did not identify any significant matters involving Caremark's internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on Caremark's system of internal controls taken as a whole.

In conducting the audit we relied to varying degrees on computer-generated data provided by Caremark. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during audit testing, nothing came to our attention to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether Caremark had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations and Federal Employees Health Benefits Acquisition Regulations, as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, Caremark complied with all provisions of the contract and Federal procurement regulations.

METHODOLOGY

To test Caremark's compliance with the contracts we reviewed the following areas:

For our review of claim payments we selected the following samples to determine if the claims were properly paid by Caremark (all samples were selected from claims billed from July 1 through December 31, 2005):

- We initially selected a judgmental sample of 100 mail order drug claims (totaling \$358,746) by selecting every 10th claim (until we had chosen 100 claims) from a listing sorted from highest to lowest of "client due amount" of \$500 or greater. This universe included [REDACTED] claims totaling [REDACTED]. Caremark informed us that this sample encompassed "specialty" drug claims (specialty drugs are prescription medications that require special handling, administration, or monitoring) only. As a result, we reduced the sample to the top 20 high dollar claims selected (totaling \$156,287).
- We judgmentally selected a sample of 80 mail order claims (totaling \$46,173) by selecting every 10th claim (until we had chosen 80 claims) based on high "client due amount" between \$500 and \$600. This sample was selected from a universe of [REDACTED] mail order claims totaling [REDACTED].
- We judgmentally selected the top five retail pharmacies based on the highest total "client due amount" by pharmacy. For each retail pharmacy selected, we judgmentally selected every 10th claim from a listing of "client due amount" sorted from highest to lowest until we had chosen 30 claims for each pharmacy. Specifically, we selected the following:
 1. 30 CVS claims totaling \$9,750, from a universe of [REDACTED] claims totaling [REDACTED]
 2. 30 Wal-Mart claims totaling \$6,638, from a universe of [REDACTED] claims totaling [REDACTED]

2. 30 Wal-Mart claims totaling \$6,638, from a universe of [REDACTED] claims totaling [REDACTED];
 3. 30 Walgreens claims totaling \$10,008, from a universe of [REDACTED] claims totaling [REDACTED];
 4. 30 Rite-Aid claims totaling \$5,551, from a universe of [REDACTED] claims totaling [REDACTED] and [REDACTED];
 5. 30 Kroger claims totaling \$3,566, from a universe of [REDACTED] claims totaling [REDACTED];
- We judgmentally selected 60 mail order claims (totaling \$38,743) from a universe of [REDACTED] claims (totaling [REDACTED]) with indicators to dispense the drug as written (DAW) to determine if the indicators were valid. We selected every 10th claim (until we had chosen 50 claims) from a listing sorted from highest to lowest of “client due amount” where the DAW code was 1 (DAW specified by physician), and we selected every 10th claim (until we had chosen 10 claims) from a listing sorted from highest to lowest of “client due amount” where the DAW code was 2 (DAW specified by patient).

For our review of the processing and administrative fees, we judgmentally selected the month of December from each year of the audit scope (2003-2005) for review. Specifically, we reviewed the information to determine if the individual fees charged to the FEHBP were correct according to the contract between Caremark and RCBP and if the claim counts quoted on the billings were correct.

For our review of the clinical management savings, we judgmentally selected 60 claims (totaling \$80,693 in savings) from the 3rd and 4th quarters of 2005 ([REDACTED] claims, totaling [REDACTED]) to determine if the savings calculated by Caremark was correct. Specifically, from each quarter we selected every 10th claim based on the highest (positive savings) “client savings amount” until we had chosen 25 claims and every 5th claim based on the lowest (negative savings) “client savings amount” until we had chosen 5 claims.

The above samples that were selected and reviewed in performing the audit were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole. We used the Contract CS 1073 and the contract between Caremark and RCBP to determine if processing and administrative fees charged to the FEHBP were in compliance with the terms of the contract.

III. AUDIT RESULTS

Based on our review of claim payments, processing and administrative fees, and clinical management savings, we found that the RCBP pharmacy operations for 2003 through 2005, as administered by Caremark, were administered in accordance with the contracts.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

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AUDIT OF THE
RURAL CARRIER BENEFIT PLAN'S
PHARMACY OPERATIONS
AS ADMINISTERED BY CAREMARK, INC.
NORTHBROOK, ILLINOIS

CONTRACT CHARGES
REPORT NUMBER: 1H-01-00-07-013

CONTRACT CHARGES	2003	2004	2005	TOTAL
PHARMACY BENEFIT CHARGES	\$80,829,294	\$98,894,780	\$107,320,226	\$287,044,300