



U.S. OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS

## Final Audit Report

**Subject:**

**AUDIT OF THE  
AMERICAN POSTAL WORKERS UNION'S  
PHARMACY OPERATIONS  
AS ADMINISTERED BY  
MEDCO HEALTH SOLUTIONS, INC.  
2003 – 2007**

**Report No.** 1H-02-00-08-040

**Date:** September 15, 2009

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Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

**AUDIT REPORT**

Federal Employees Health Benefits Program  
Pharmacy Operations  
Contract CS 1370  
American Postal Workers Union  
Plan Code 47

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Medco Health Solutions, Inc.  
Franklin Lakes, New Jersey

REPORT NO. 1H-02-00-08-040

DATE: September 15, 2009

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

Michael R. Esser  
Assistant Inspector General  
for Audits



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

**EXECUTIVE SUMMARY**

Federal Employees Health Benefits Program  
Pharmacy Operations  
Contract CS 1370  
American Postal Workers Union  
Plan Code 47

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Medco Health Solutions, Inc.  
Franklin Lakes, New Jersey

REPORT NO. 1H-02-00-08-040

DATE: September 15, 2009

The Office of the Inspector General has completed a performance audit of the 2003 through 2007 American Postal Workers Union's (APWU) pharmacy operations as administered by Medco Health Solutions, Inc. (Medco). The primary objective of the audit was to determine if Medco complied with the regulations and requirements contained within its contract with APWU and Contract CS 1370 (between APWU and the Office of Personnel Management). The audit was conducted in Franklin Lakes, New Jersey, from December 1 through December 3, 2008.

The audit showed that the 2003 through 2007 APWU pharmacy operations were in compliance with the contracts.

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## **I. INTRODUCTION AND BACKGROUND**

### **INTRODUCTION**

As authorized by the Inspector General Act of 1978, as amended, we conducted an audit of the 2003 through 2007 American Postal Workers Union's (APWU) pharmacy operations as administered by Medco Health Solutions, Inc. (Medco). The audit field work was conducted at Medco's offices in Franklin Lakes, New Jersey, from December 1 through December 3, 2008. Additional audit work was completed at our Washington, D.C. office.

### **BACKGROUND**

The Federal Employees Health Benefits Program (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.

APWU has entered into a government-wide contract (CS 1370) with OPM to provide a health benefit plan authorized by the FEHB Act. APWU has contracted directly with Medco to manage the delivery and financing of prescription drug benefits for APWU health benefit purchasers.

This is our first audit of the APWU pharmacy benefit operations as administered by Medco relating to claim payments.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The objectives of our audit were to determine whether Medco's charges to the FEHBP and services provided to FEHBP members, relative to benefit payments, were in accordance with the terms of the contracts.

### **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 APWU Annual Accounting Statements for contract years 2003 through 2007. During this period, APWU paid approximately \$624 million in pharmacy drug charges (see Schedule A).

In planning and conducting our audit, we obtained an understanding of Medco'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 Medco'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 Medco's system of internal controls taken as a whole.

In conducting the audit we relied to varying degrees on computer-generated data provided by Medco. 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 Medco 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, Medco complied with all provisions of the contract and the federal procurement regulations.

## METHODOLOGY

To test Medco's compliance with the contracts regarding claim payments, we reviewed the following samples of pharmacy claims adjudicated by Medco and billed from July 1, 2006 through December 31, 2007:

- We randomly selected 30 mail order claim lines for review, totaling \$7,431, which had indicators showing that either the physician or patient requested the prescription to be dispensed as written (DAW) (i.e., brand name dispensed with no option for generic substitution). This sample was selected from a universe of 4,628,891 claim lines totaling \$227,287,202. Specifically, we reviewed 15 mail order claims with DAW code 1 (DAW requested by physician) and 15 mail order claims with DAW code 2 (DAW requested by patient).
- To determine if mail order specialty drugs (specialty drugs are prescription medications that require special handling, administration, or monitoring) were properly adjudicated, we judgmentally selected 25 specialty mail order claim lines for review, totaling \$21,038 (from a universe of 1,027 claim lines totaling \$2,199,506). These claims were selected from Medco's specialty only Accredo mail order pharmacy.
- We judgmentally selected 100 mail order claim lines for review, totaling \$27,293, to determine if the claims were adjudicated correctly. This sample was selected from a universe of the top 100 mail order drug claims paid from 2003 through 2007, with 1,454,511 claim lines totaling \$231,727,402. Specifically, we judgmentally selected the top 10 mail order drugs (by highest amount paid) in 2003 through 2007 and randomly selected 10 claims from each drug (for a total of 100 claim lines).
- To determine if retail drug claims were properly adjudicated, we judgmentally selected 150 retail claim lines for review, totaling \$87,622 (from a universe of the top 100 retail pharmacies paid from 2003 through 2007; 562,396 claim lines totaling \$17,283,007). Specifically, our sample was made up of the following two selections:
  - We judgmentally selected the top 5 retail pharmacies (by highest amount paid) and randomly selected 25 claim lines from each pharmacy (for 125 claim lines, totaling \$43,218).
  - We judgmentally selected 16 retail pharmacies which had 1,000 or fewer claim lines and randomly selected 25 claim lines, totaling \$44,404, from this universe.

The above samples that were selected and reviewed in performing the audit were not entirely 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 1370 and the contract between Medco and APWU to determine if the pharmacy benefits charged to the FEHBP were in compliance with the terms of the contracts.

### **III. AUDIT RESULTS**

Based on our review of claim payments we found that the APWU pharmacy operations for 2003 through 2007, as administered by Medco, were administered in accordance with the contracts.



#### IV. MAJOR CONTRIBUTORS TO THIS REPORT

##### Special Audits Group

[REDACTED] Auditor

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[REDACTED] Senior Team Leader

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AUDIT OF THE  
AMERICAN POSTAL WORKERS UNION'S  
PHARMACY OPERATIONS  
AS ADMINISTERED BY MEDCO HEALTH SOLUTIONS  
FRANKLIN LAKES, NJ

CONTRACT CHARGES  
REPORT NUMBER: 1H-02-00-08-040

CONTRACT CHARGES	2003	2004	2005	2006	2007	TOTAL
A. PHARMACY BENEFIT CHARGES	\$120,050,664	\$121,379,543	\$116,073,052	\$138,888,903	\$127,688,165	\$624,080,327