



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

Final Audit Report

Subject:

**AUDIT OF
BLUE CHOICE OF MISSOURI'S
PHARMACY OPERATIONS
AS ADMINISTERED BY
WELLPOINT HEALTH NETWORKS, INC.
2004 - 2007**

Report No. 1D-9G-00-09-017

Date: September 30, 2009

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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 Operations
Contract CS 2838
Blue Choice of Missouri
Plan Code 9G

WellPoint Health Networks, Inc.
Mason, Ohio

REPORT NO. 1D-9G-00-09-017

DATE: September 30, 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
Pharmacy Operations
Contract CS 2838
Blue Choice of Missouri
Plan Code 9G

WellPoint Health Networks, Inc.
Mason, Ohio

REPORT NO. 1D-9G-00-09-017

DATE: September 30, 2009

The Office of the Inspector General has completed a performance audit of the 2004 through 2007 Blue Choice of Missouri (Blue Choice) pharmacy operations as administered by WellPoint Health Networks, Inc. (WellPoint). The primary objective of the audit was to determine whether WellPoint complied with the regulations and requirements contained within its service agreement with Blue Choice and Contract CS 2838 (between Blue Choice and the Office of Personnel Management). The audit was conducted in Mason, Ohio, from November 3 through November 21, 2008. Our audit results are summarized below.

MAIL ORDER PROFIT REMOVAL

Unallowable Profit Included in FEHBP Mail Order Drug Charges

\$65,225

WellPoint did not remove all of the operating gain (profit) included in the mail order drug charges to the FEHBP. As a result, the FEHBP was overcharged \$65,225 in contract years 2006 and 2007.

LOST INVESTMENT INCOME

Lost Investment Income on Mail Order Drug Overcharges

\$9,155

The FEHBP is due \$9,155 for lost investment income on the 2006 and 2007 mail order drug overcharges, calculated through August 31, 2009. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning September 1, 2009 until all questioned costs have been returned to the FEHBP.

ADMINISTRATIVE EXPENSES

The administrative expenses charged to the FEHBP by WellPoint were in compliance with the terms of the service agreement between WellPoint and Blue Choice as well as Contract CS 2838 between Blue Choice and OPM.

DRUG MANUFACTURER REBATES

We determined that WellPoint returned all FEHBP manufacturer drug rebates and the associated administrative fees to the FEHBP in compliance with the terms of the service agreement between WellPoint and Blue Choice as well as Contract CS 2838 between Blue Choice and OPM.

ANNUAL ACCOUNTING STATEMENT RECONCILIATION

We reconciled the pharmacy cost reported on Blue Choice's Annual Accounting Statements to the supporting documentation provided by WellPoint and did not identify any material variances.

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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 2004 through 2007 Blue Choice of Missouri (Blue Choice) pharmacy operations as administered by WellPoint Health Networks, Inc. (WellPoint). The audit field work was conducted at WellPoint's offices in Mason, Ohio, from November 3 through November 21, 2008. Additional audit work was completed in 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.

WellPoint Health Networks, Inc. is one of the largest publicly traded health care insurers in the United States. Blue Choice, one of its subsidiaries, entered into a government-wide contract (CS 2838) with OPM to provide a health benefit plan authorized by the FEHB Act. Consequently, since in this instance the health carrier (Blue Choice) and the Pharmacy Benefit Manager (WellPoint) are part of the same entity, Blue Choice has a service agreement instead of a contract with WellPoint to manage the delivery and financing of prescription drug benefits for Blue Choice health benefit purchasers. As a result of this relationship, the Pharmacy Benefit Manager (PBM) agreement was fully transparent where actual prices were passed through to the FEHBP.

On April 13, 2009, it was announced that Express Scripts (a large national PBM) had acquired WellPoint's PBM business. As a result of this acquisition, the favorable conditions resulting from WellPoint's subsidiary relationship with its PBM that benefited the FEHBP in this case no longer exist.

This was our first audit of the Blue Choice pharmacy benefit operations as administered by WellPoint.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether WellPoint's charges to the FEHBP and services provided to FEHBP members were in accordance with the terms of the service agreement between WellPoint and Blue Choice as well as Contract CS 2838 between Blue Choice and OPM. Our specific objectives were as follows:

Administrative Expenses

- To determine whether the administrative expenses charged to the FEHBP were allowable, reasonable and allocable.

Drug Manufacturer Rebates

- To determine if the correct rebate percentages were used to calculate FEHBP drug manufacturer rebates;
- To determine whether the FEHBP was credited the appropriate amount of drug manufacturer rebates in a timely manner; and
- To determine if the FEHBP was credited for any administrative fees earned by WellPoint as a result of FEHBP rebates.

Annual Accounting Statement (AAS) Reconciliation

- To determine whether the costs charged to the FEHBP by WellPoint reconciled to those reported to OPM on the AAS.

Mail Order Profit Removal

- To determine whether WellPoint properly removed profit included in the Mail Order pharmacy charges to the FEHBP.

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 audit 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 Blue Choice's Annual Accounting Statements for contract years 2004 through 2007. During this period, Blue Choice paid \$103,103,722 in prescription drug charges (see Schedule A).

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

In conducting our audit, we relied to varying degrees on computer-generated data provided by WellPoint. 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 cause us to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether WellPoint had complied with the contract and service agreement, 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. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to items not tested, nothing came to our attention that caused us to believe that WellPoint has not complied, in all material respects, with those provisions.

METHODOLOGY

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

Administrative Expenses

- We judgmentally selected six cost centers with the highest amounts charged the FEHBP in 2007, totaling \$90,348 (from a universe of 27 cost centers totaling \$168,098). Specifically, we reviewed the costs charged to the FEHBP in the months of January, July, and December of 2007 to determine if the amounts charged were necessary, reasonable, and allowable.

Drug Manufacturer Rebates

- From the largest FEHBP carrier administered by WellPoint, we judgmentally selected 10 drug manufacturers (from a universe of 80 drug manufacturers), with the highest FEHBP rebates earned from 2004 through 2007. From this sample:
 - a. We randomly selected and reviewed two drug products from each manufacturer and compared the contract rebate terms with WellPoint's billing for the second quarter of 2007 to verify that the correct rebate percentages were being applied.

- b. To determine if administrative fees earned by WellPoint as a result of FEHBP drug utilization were properly returned to the FEHBP, we reviewed all 2006 and 2007 administrative fee credits, totaling \$18,117 and \$14,453, respectively, and verified that the amount was returned to the FEHBP.
- c. To determine if the FEHBP was properly credited for rebates received, we reviewed all FEHBP rebates for 2004 through 2007 and traced them from WellPoint's general ledger to the AAS and the drawdown reports.

AAS Reconciliation

- To determine if the amounts reported by Blue Choice on the AAS were accurate, we reconciled WellPoint's general ledger total for 2004 through 2007 to the AAS.

Mail Order Profit Removal

- To determine if the FEHBP was properly credited for any profit included in the mail order pharmacy benefits, we judgmentally selected the latest three months of mail order pharmacy claims data that was readily available from 2007 (the most current year included in our audit scope). Specifically, we reviewed the claims for the months of September through November 2007, and we verified WellPoint's profit calculation and the return of monies to the FEHBP.

The samples above that were selected and reviewed 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 as a whole. We used Contract CS 2838 and the service agreement between Blue Choice and WellPoint to determine if processing and administrative fees charged to the FEHBP were in compliance with the terms of the contract and service agreement.

The results of the audit were provided to WellPoint in written inquiries and were discussed with WellPoint officials throughout the audit and at the exit conference. In addition, a draft report, dated May 19, 2009, was provided to WellPoint for review and comment. WellPoint's comments on the draft report were considered in preparing the final report and are included as an Appendix to this report.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MAIL ORDER PROFIT REMOVAL

1. Unallowable Profit Included in FEHBP Mail Order Drug Charges **\$65,225**

WellPoint did not remove all of the operating gain (profit) included in the mail order drug charges to the FEHBP. As a result, the FEHBP was overcharged \$65,225 in contract years 2006 and 2007.

In a settlement agreement effective December 2006, OPM and WellPoint as parties to specific FEHBP Contracts (including Contract CS 2838, Blue Choice of Missouri), agreed that WellPoint's mail order pharmacy affiliate included a profit element in the mail order drug charges that was inappropriately passed on to the FEHBP by the FEHBP HMOs. WellPoint agreed to pay a monetary settlement to the FEHBP for the recovery of profit included in the mail order charges in calendar years 2001 through 2005. In addition, WellPoint stated that its agreement with the health plans provides for all drug pricing at cost.

For contract years 2006 and 2007, we reviewed the procedures implemented by WellPoint for identifying and removing the operating gain (profit) from the FEHBP mail order drugs.

To test whether WellPoint properly removed all profit from FEHBP's mail order drug charges, we obtained WellPoint's 2007 FEHBP Mail Order Service Claims spreadsheet, which identified the profit included in each drug charge. Using the claims data and the profit formula provided by WellPoint, we recalculated the profit to be removed from Blue Choice's mail order drug charges from September to November 2007.

We compared our calculation of the profit included in the drug claims with WellPoint's reported profit and identified a \$1.50 variance per script. Specifically, we calculated the profit by taking the total paid (patient co-pay and carrier payment), less cost of goods sold (COGS) and administrative cost. Our calculation of the COGS agreed with WellPoint's COGS. However, when we subtracted the COGS and administrative cost from the total paid, our profit was \$1.50 higher per script than what was reported by WellPoint.

We informed WellPoint of the profit variance during our on-site visit. WellPoint stated that the \$1.50 per script charge was erroneously excluded from the profit calculation. Therefore, the amount of profit to be returned to the FEHBP was understated. The \$1.50 per script (which was a dispensing fee) was not removed from the pricing system for this client as it was for the other FEHBP clients. As a result, the FEHBP was overcharged \$8,396 from September to November 2007 due to WellPoint's profit removal miscalculation.

In our draft report, we requested that WellPoint review and correct its profit calculation for contract year 2006 and the remainder of contract year 2007 to identify all additional profit

that was not removed from FEHBP mail order drug charges, provide the OIG support for the calculations, and reimburse the FEHBP for the additional overcharges identified.

WellPoint Comment:

WellPoint agrees with this finding. The \$1.50 per script fee had not been removed from the pricing system for the Blue Choice client as it had been for the other FEHBP clients. An analysis of Blue Choice scripts dispensed in the mail order pharmacy from January 1, 2006 through December 31, 2007, showed that the FEHBP was overcharged \$65,225 during this period (this amount includes the \$8,396 we originally identified). WellPoint agrees to reimburse the FEHBP this amount.

At the beginning of 2008, this client was transitioned to a different claims system which eliminated this error.

OIG Comment:

We reviewed WellPoint's recalculation of the additional profit to be removed from the mail order pharmacy drug claims from January 1, 2006 through December 31, 2007, and concur that the FEHBP is due \$65,225 for mail order pharmacy overcharges.

Recommendation 1

We recommend that the contracting officer ensure that WellPoint returns to the FEHBP \$65,225 for mail order pharmacy claims overcharges from January 1, 2006 through December 31, 2007.

Recommendation 2

We recommend that the contracting officer require WellPoint to ensure that the new claims system identifies and removes all profit and other unallowable charges from FEHBP's mail order pharmacy claims.

B. LOST INVESTMENT INCOME

1. Lost Investment Income on Mail Order Drug Overcharges **\$9,155**

In accordance with FEHBP regulations and Contract CS 2838 between OPM and Blue Choice, the FEHBP is entitled to recover lost investment income on the mail order drug overcharges, which totaled \$65,225 for contract years 2006 and 2007.

Contract CS 2838, Sections 3.4 (e) and (f), states that investment income lost as a result of failure to credit income due to the contract is due to the government based on a simple interest formula from the date the funds should have been credited to the date the funds are returned.

We determined that the FEHBP is due \$9,155 for lost investment income, calculated through August 31, 2009 (see Schedule B). In addition, the FEHBP is entitled to recover lost investment income on amounts due beginning on September 1, 2009, until all questioned costs have been returned to the FEHBP.

Our calculation of lost investment income was based on the United States Department of Treasury's semiannual cost of capital rates.

WellPoint Comment:

The draft report did not include a section covering lost investment income on the audit findings. Therefore, WellPoint did not address lost investment income in its response to the draft report.

Recommendation 3

We recommend that the contracting officer require WellPoint to refund the FEHBP \$9,155 for lost investment income calculated through August 31, 2009, on the 2006 and 2007 mail order drug overcharges.

Recommendation 4

We recommend that the contracting officer recover lost investment income on amounts due beginning September 1, 2009, until all questioned costs have been returned to the FEHBP.

C. ADMINISTRATIVE EXPENSES

The administrative expenses charged to the FEHBP by WellPoint were in compliance with the terms of the service agreement between WellPoint and Blue Choice as well as Contract CS 2838 between Blue Choice and OPM.

D. DRUG MANUFACTURER REBATES

We determined that WellPoint returned to the FEHBP all drug rebates and the associated administrative fees that were received from the drug manufacturers due to FEHBP subscriber drug utilization in compliance with the terms of the service agreement between WellPoint and Blue Choice as well as Contract CS 2838 between Blue Choice and OPM.

E. ANNUAL ACCOUNTING STATEMENT RECONCILIATION

We reconciled the pharmacy cost reported on Blue Choice's Annual Accounting Statements to the supporting documentation provided by WellPoint and did not identify any material variances.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

██████████ Group Chief ██████████

██████████ Senior Team Leader

FEDERAL EMPLOYEES HEALTH BENEFIT PROGRAM
 PHARMACY OPERATIONS
 BLUE CHOICE OF MISSOURI

CONTRACT CHARGES AND QUESTIONED COSTS
 REPORT NUMBER: 1D-9G-00-09-017

CONTRACT CHARGES	2004	2005	2006	2007	2008	2009	TOTAL
A. PHARMACY BENEFIT PAYMENTS	\$17,346,965	\$19,856,978	\$24,221,717	\$25,040,495	\$0	\$0	\$86,466,155
B. ADMINISTRATIVE EXPENSES	5,021,086	4,307,011	4,074,027	3,235,443	0	0	16,637,567
	\$22,368,051	\$24,163,989	\$28,295,744	\$28,275,938			\$103,103,722
QUESTIONED COSTS	2004	2005	2006	2007			TOTAL
A. PHARMACY BENEFIT PAYMENTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1. MAIL ORDER PHARMACY OVERCHARGES			\$33,986	\$31,239	\$0	\$0	\$65,225
B. LOST INVESTMENT INCOME ON AUDIT FINDINGS	\$0	\$0	\$924	\$2,728	\$3,220	\$2,283	\$9,155
TOTAL QUESTIONED COSTS	\$0	\$0	\$34,910	\$33,967	\$3,220	\$2,283	\$74,380

FEDERAL EMPLOYEES HEALTH BENEFIT PROGRAM
 PHARMACY OPERATIONS
 BLUE CHOICE OF MISSOURI

LOST INVESTMENT INCOME
 REPORT NUMBER 1D-9G-00-09-017

Year	2006	2007	2008	2009	Total
Audit Finding:					
MAIL ORDER PHARMACY OVERCHARGES	\$33,986	\$31,239	\$0	\$0	\$65,225
Totals (per year):	\$33,986	\$31,239	\$0	\$0	\$65,225
Cumulative Totals:	\$33,986	\$65,225	\$65,225	\$65,225	\$65,225
Avg. Interest Rate (per year):	5.4375%	5.5000%	4.9375%	5.2500%	
Interest on Prior Years Findings:	\$0	\$1,869	\$3,220	\$2,283	\$7,372
Current Years Interest:	\$924	\$859	\$0	\$0	\$1,783
Total Cumulative Interest Calculated Through August 31, 2009:	\$924	\$2,728	\$3,220	\$2,283	\$9,155



Response to OPM Audit Report No. 1D-9G-00-09-017

Date: July 15, 2009

Prepared by: [REDACTED]

Office of Personnel Management
Office of the Inspector General
Attention: [REDACTED]
1900 E Street NW, Room 6400
Washington, DC 20415-1100

Response to OPM Draft Audit Report No. 1D-9G-00-09-017

Dear Ms. [REDACTED]

Attached is WellPoint's to draft audit report No. 1D-9G-00-09-017. If you have any questions please feel free to contact me.

Sincerely,

[REDACTED]

A. REMOVAL OF PROFIT FROM DRUG CHARGES

1. Unallowable Profit Included in FEHBP Mail Order Drug Charges \$8,396

Blue Choice Response

The plan agrees with this finding.

Blue Choice Draft Response

A \$1.50 dispensing fee was erroneously charged on FEHBP Missouri (Blue Choice) scripts dispensed in the mail order pharmacy. The \$1.50 per script fee had not been removed from the pricing system for the Blue Choice client as it had been for the other FEHBP clients.

An analysis of Blue Choice scripts dispensed in the mail order pharmacy from 1/1/2006 through 12/31/2007 concluded that FEHBP was overcharged \$65,225 (see attached support) during this period. We will reimburse the FEHBP for this amount.

At the beginning of 2008, this client was transitioned to a different claim system; therefore, this error was eliminated at that point in time.