



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

Final Audit Report

Subject:

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

Report No. 1D-M5-00-09-015

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 2514
Blue Cross of California
Plan Code M5

WellPoint Health Networks, Inc.
Mason, Ohio

REPORT NO. 1D-M5-00-09-015

DATE: September 30, 2009

A handwritten signature in black ink, appearing to read "M. 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 2514
Blue Cross of California
Plan Code M5

WellPoint Health Networks, Inc.
Mason, Ohio

REPORT NO. 1D-M5-00-09-015

DATE: September 30, 2009

The Office of the Inspector General has completed a performance audit of the 2004 through 2007 Blue Cross of California (BCC) 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 BCC and Contract CS 2514 (between BCC and the Office of Personnel Management). The audit was conducted in Mason, Ohio, from November 3 through November 21, 2008.

The audit showed that the 2004 through 2007 BCC pharmacy operations were in compliance with the contract and service agreement.

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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 Cross of California (BCC) 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. BCC, one of its primary subsidiaries, entered into a government-wide contract (CS 2514) with OPM to provide a health benefit plan authorized by the FEHB Act.

Consequently, since in this instance the health carrier (BCC) and the Pharmacy Benefit Manager (WellPoint) are part of the same entity, BCC has a service agreement instead of a contract with WellPoint to manage the delivery and financing of prescription drug benefits for BCC 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 is our first audit of the BCC 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 BCC, and Contract CS 2415 between the BCC 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 whether 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 whether 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 our audit objectives.

We reviewed BCC's Annual Accounting Statements for contract years 2004 through 2007. During this period, the BCC paid \$99,978,901 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 the service agreement, the applicable procurement regulations (i.e., Federal Acquisition Regulations, and Federal 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, WellPoint complied with all provisions of the contract, the service agreement, and the federal procurement regulations.

METHODOLOGY

To test WellPoint's compliance with the contract and the service agreement we reviewed the following areas:

Administrative Expenses

- We judgmentally selected six cost centers with the highest amounts charged to the FEHBP in 2007, totaling \$76,920. This sample was selected from a universe of 28 cost centers totaling \$158,108. 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

- We judgmentally selected 10 drug manufacturers, with the highest FEHBP rebates earned from 2004 through 2007, totaling \$6,627,565. This sample was selected from a universe of 80 drug manufacturers with FEHBP rebates totaling \$8,317,633. 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 2nd quarter 2007 to verify that the correct rebate percentages were being applied.

- b. We reviewed all 2006 and 2007 administrative fee credits, totaling \$19,457 and \$12,355, respectively, to determine if administrative fees earned by WellPoint as a result of FEHBP drug utilization were properly returned to the FEHBP.
- c. We reviewed all FEHBP rebates for 2004 through 2007 and traced them from WellPoint's general ledger to the AAS and the drawdown reports to determine if the FEHBP was properly credited for rebates received.

AAS Reconciliation

- To determine if the amounts reported by BCC on the AAS were accurate, we reconciled WellPoint's general ledger totals 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 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 as a whole. We used the Contract CS 2514 and the service agreement between WellPoint and BCC to determine if processing and administrative fees charged to the FEHBP were in compliance with the terms of the contract and the service agreement.

III. AUDIT RESULTS

Based on our review of administrative expenses, drug manufacturer rebates, AAS reconciliations, and mail order profit removal, we found that the BCC pharmacy operations for 2004 through 2007, as administered by WellPoint, were administered in accordance with the contract and service agreement.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

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AUDIT OF
BLUE CROSS OF CALIFORNIA'S PHARMACY OPERATIONS AS
ADMINISTERED BY WELLPOINT HEALTH NETWORKS, INC.

CONTRACT CHARGES
REPORT NUMBER: 1D-M5-00-09-015

CONTRACT CHARGES	2004	2005	2006	2007	TOTAL
A. PHARMACY BENEFIT PAYMENTS	\$18,979,760	\$26,353,015	\$23,394,797	\$19,560,799	\$88,288,371
B. ADMINISTRATIVE EXPENSES	3,063,772	3,076,332	2,988,001	2,562,425	11,690,530
TOTAL CONTRACT CHARGES	\$22,043,532	\$29,429,347	\$26,382,798	\$22,123,224	\$99,978,901