



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

Final Audit Report

Subject:

**AUDIT OF THE
FEDERAL BLUE HMO OHIO'S
PHARMACY OPERATIONS
AS ADMINISTERED BY
WELLPOINT HEALTH NETWORKS, INC.
2004 - 2007**

Report No. 1D-R5-00-09-016

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 1659
Federal Blue HMO Ohio
Plan Code R5

WellPoint Health Networks, Inc.
Mason, Ohio

REPORT NO. 1D-R5-00-09-016

DATE: September 30, 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 1659
Federal Blue HMO Ohio
Plan Code R5

WellPoint Health Networks, Inc.
Mason, Ohio

REPORT NO. 1D-R5-00-09-016

DATE: September 30, 2009

The Office of the Inspector General has completed a performance audit of the 2004 through 2007 Federal Blue HMO Ohio's (Blue HMO) 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 Contract CS 1659 (between Blue HMO and the Office of Personnel Management) and its service agreement with Blue HMO. The audit was conducted in Mason, Ohio, from November 3 through November 21, 2008. Our audit results are summarized below.

DRUG MANUFACTURER REBATES

Untimely Return of Rebates

\$1,521,954

WellPoint did not return all 2006 and 2007 drug manufacturer rebates, totaling \$1,521,954, to the FEHBP in a timely manner. This oversight was not identified by WellPoint until our audit in November 2008. As a result, WellPoint refunded the rebates to the FEHBP in May 2009.

LOST INVESTMENT INCOME

Lost Investment Income on Manufacturer Rebates

\$169,576

The FEHBP is due lost investment income of \$169,576, calculated through April 30, 2009, on the untimely return of manufacturer rebates related to contract years 2006 and 2007.

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 HMO as well as Contract CS 1659 between Blue HMO and OPM.

ANNUAL ACCOUNTING STATEMENT RECONCILIATION

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

MAIL ORDER DRUG PROFIT REMOVAL

We determined that WellPoint removed all profit from its mail order drug costs charged to the FEHBP in compliance with the terms of the service agreement between WellPoint and Blue HMO as well as Contract CS 1659 between Blue HMO and OPM.

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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 Federal Blue HMO Ohio (Blue HMO) 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 HMO, one of its subsidiaries, entered into a government-wide contract (CS 1659) with OPM to provide a health benefit plan authorized by the FEHB Act. Consequently, since in this instance the health carrier (Blue HMO) and the Pharmacy Benefit Manager (WellPoint) are part of the same entity, Blue HMO has a service agreement instead of a contract with WellPoint to manage the delivery and financing of prescription drug benefits for Blue HMO 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 HMO 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 HMO as well as Contract CS 1659 between Blue HMO 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 HMO's Annual Accounting Statements for contract years 2004 through 2007. During this period, Blue HMO paid \$179,579,687 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 to the FEHBP in 2007, totaling \$125,435 (from a universe of 32 cost centers totaling \$433,329). 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 the rebates (including administrative fees) earned by WellPoint as a result of FEHBP drug utilization were properly returned to the FEHBP, we reviewed WellPoint's annual reconciliation of the total billed to the manufacturers

for the 2006 and 2007 rebates due Blue HMO and the actual payments received, and verified that the total rebate amount received from the manufacturers 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 HMO 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 were 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 1659 and the service agreement between Blue HMO 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 14, 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. DRUG MANUFACTURER REBATES

1. Untimely Return of Rebates

\$1,521,954

WellPoint did not return all drug manufacturer rebates earned by the FEHBP in 2006 and 2007 in a timely manner. Specifically, WellPoint did not return rebates totaling \$1,521,954 to the FEHBP (for contract years 2006 and 2007) until May 2009.

Contract CS 1659, Section 3.2 (i) states that "Benefit costs consist of payments made and liabilities incurred for covered health care services on behalf of FEHBP subscribers less any refunds, rebates, allowances or other credits received." In addition, WellPoint stated that its agreement with the health plans provides for the pass-through of all rebates.

WellPoint's procedure for returning Blue HMO's FEHBP rebates and administrative fees is to return, in advance of receipt, 80 percent of both the rebates and administrative fees to the FEHBP that it billed to drug manufacturers. WellPoint then reconciles against the actual amount received from the drug manufacturers and returns any remaining monies (true-ups) to the FEHBP.

During our audit, we requested that WellPoint provide documentation supporting the return of all rebates and administrative fees to the FEHBP. As a result of our request, WellPoint discovered that some rebates for contract years 2006 and 2007 were not returned to the FEHBP. Specifically, WellPoint did not return those rebates and administrative fee monies due the FEHBP following the year-end reconciliation. We found that Blue HMO was due additional rebates of \$1,521,954 (\$474,374 and \$1,047,580 for contract years 2006 and 2007, respectively). WellPoint stated that although year-end true-ups are typically settled by FEHBP draw downs, it has no formal procedures in place that required these monies to be transferred to the FEHBP within a specific timeframe. Not having procedures in place to ensure that the draw downs for rebate true-ups are performed in a specific timeframe may result in the FEHBP not receiving all rebates in accordance with the Contract.

We subsequently verified through OPM's Center for Financial Services, Office of the Chief Financial Officer, that WellPoint returned \$1,521,954 to the FEHBP on May 14, 2009.

WellPoint's Comments:

WellPoint agrees with the finding and states that it used the above process only for Blue HMO. Additionally, WellPoint stated that Blue HMO no longer participates in the FEHBP.

Recommendation 1

We recommend that the contracting officer ensure that WellPoint has put procedures in place to properly return all rebates due the FEHBP from Blue HMO beginning January 1, 2008, through its exit from the FEHBP.

B. LOST INVESTMENT INCOME

1. Lost Investment Income on Manufacturer Rebates **\$169,576**

In accordance with FEHBP regulations and Contract CS 1659 between OPM and Blue HMO, the FEHBP is entitled to recover lost investment income (LII) on the untimely return of drug manufacturer rebates to the FEHBP, which totaled \$1,521,954 relating to contract years 2006 and 2007. The LII on these untimely returned rebates amounts to \$169,576, through April 30, 2009.

Contract CS 1659, 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 \$169,576 in LII, calculated through April 30, 2009 (See Schedule B). Our calculation of LII was based on the United States Department of Treasury's semiannual cost of capital rates.

WellPoint's Comments:

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

Recommendation 2

We recommend that the contracting officer require WellPoint to refund the FEHBP \$169,576 for LII related to pharmacy manufacturer rebates.

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 HMO as well as Contract CS 1659 between Blue HMO and OPM.

D. ANNUAL ACCOUNTING STATEMENT RECONCILIATION

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

E. MAIL ORDER DRUG PROFIT REMOVAL

We determined that WellPoint removed all profit from its mail order drug costs charged to the FEHBP in compliance with the terms of the service agreement between WellPoint and Blue HMO as well as Contract CS 1659 between Blue HMO and OPM.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

██████████ Group Chief (202) 606-4745

██████████ Senior Team Leader

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM
 PHARMACY OPERATIONS
 FEDERAL BLUE HMO OHIO

CONTRACT CHARGES AND QUESTIONED COSTS
 REPORT NUMBER: ID-R5-00-09-016

CONTRACT CHARGES	2004	2005	2006	2007	2008	2009	TOTAL
A. PHARMACY BENEFIT PAYMENTS	\$31,641,907	\$35,206,875	\$43,297,017	\$42,921,059	\$0	\$0	\$153,066,858
B. ADMINISTRATIVE EXPENSES	6,480,998	7,069,537	6,753,216	6,209,078	0	0	26,512,829
	\$38,122,905	\$42,276,412	\$50,050,233	\$49,130,137	\$0	\$0	\$179,579,687
QUESTIONED COSTS	2004	2005	2006	2007	2008	2009	TOTAL
A. PHARMACY BENEFIT PAYMENTS							
1. UNTIMELY RETURN OF REBATES	\$0	\$0	\$474,374	\$1,047,580	\$0	\$0	\$1,521,954
B. LOST INVESTMENT INCOME ON AUDIT FINDINGS	\$0	\$0	\$12,897	\$54,899	\$75,146	\$26,634	\$169,576
TOTAL QUESTIONED COSTS	\$0	\$0	\$487,271	\$1,102,479	\$75,146	\$26,634	\$1,691,530

FEDERAL EMPLOYEES HEALTH BENEFIT PROGRAM
 PHARMACY OPERATIONS
 FEDERAL BLUE HMO OHIO

LOST INVESTMENT INCOME
 REPORT NUMBER 1D-R5-00-09-016

Year	2006	2007	2008	2009	Total
Audit Finding:					
UNTIMELY RETURN OF MANUFACTURER REBATES	\$474,374	\$1,047,580	\$0	\$0	\$1,521,954
Totals (per year):	\$474,374	\$1,047,580	\$0	\$0	\$1,521,954
Cumulative Totals:	\$474,374	\$1,521,954	\$1,521,954	\$1,521,954	\$1,521,954
Avg. Interest Rate (per year):	5.4375%	5.5000%	4.9375%	5.2500%	
Interest on Prior Years Findings:	\$0	\$26,091	\$75,146	\$26,634	\$127,871
Current Years Interest:	\$12,897	\$28,808	\$0	\$0	\$41,705
Total Cumulative Interest Calculated Through April 30, 2009:	\$12,897	\$54,899	\$75,146	\$26,634	\$169,576



Response to OPM Audit Report No. 1D-R5-00-09-016

Date: May 28, 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-R5-00-09-016

Dear [REDACTED]

Attached is WellPoint's to draft audit report No. 1D-R5-00-09-016. If you have any questions please feel free to contact me.

Sincerely,

[REDACTED]

A. PHARMACUTICAL MANUFACTURER REBATES

1. Untimely Return of Rebates to FEHBP

\$1,521,954

Blue HMO Response

The plan agrees with this finding.

Blue HMO Draft Response

The plan agrees with the finding. The plan used the above process only for the Ohio Blue HMO. The Blue HMO no longer participates in the FEHPB.