Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Encounter Data

May 2019

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

May 2019

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Tony Lourey, Commissioner
Department of Human Services

Minnesota Statutes 2018, 3.972, subd. 2b, directs the Office of the Legislative Auditor to audit managed care organizations (MCOs) under contract with the Department of Human Services (DHS). This report presents the results of our compliance audit *Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Encounter Data*. The objectives of this audit were to determine if managed care organizations complied with selected legal and DHS contract requirements regarding oversight of pharmacy benefit managers and reporting of pharmacy claims data to DHS.

DHS requires MCOs to report detailed information about their administrative expenses and the nature and amount of medical expenses, including claim payments to providers, to better manage health care quality for enrollees and the costs to taxpayers. This information also helps DHS assess the extent to which MCOs' expenditures were for medical care of enrollees and improving health care quality—a federal standard referred to as minimum "medical loss ratio."

Our audit found that three managed care organizations serving public programs did not comply with the DHS requirement to report the actual payments to each pharmacy provider. Instead, these three entities reported to DHS amounts that were related to the terms of their administrative contracts with pharmacy benefit managers. For DHS, the lack of full visibility into costs and claim payments to pharmacy providers inhibits the usefulness of encounter data.

This audit was conducted by Valerie Bombach (Audit Director); Jennyfer Hildre (Audit Team Lead); Daniel Holmgren (Staff Auditor); April Lee (Senior Auditor); Crystal Nibbe (Staff Auditor); and Robert Timmerman (Senior Auditor).

We received the full cooperation of the managed care organizations' staff while performing this audit.

Sincerely,

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Deputy Legislative Auditor

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L'ETOILE DU NORD
1858

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Report Summary

The Department of Human Services (DHS) is responsible for overseeing Minnesota's public health care programs, and the department contracts with managed care organizations (MCOs) to provide certain administrative functions and services to enrollees. To manage pharmacy providers and related services under these programs, each MCO contracts with a "pharmacy benefit manager" (PBM). For calendar year 2018, eight MCOs reported $964 million in pharmacy expenses for Minnesota Health Care Programs (MHCP) to serve approximately 961,000 enrollees, including members who were enrolled in MHCP and also received Medicare coverage.

The Office of the Legislative Auditor audited these eight MCOs to determine their compliance with key legal and DHS contract requirements regarding MCO oversight of pharmacy benefit managers and reporting of pharmacy claims data to DHS. Our audit scope focused on DHS contracts and samples of payments to pharmacy providers reported to DHS by the MCOs during calendar years 2017 and 2018.

Conclusions

Blue Plus, Hennepin Health, Medica Health Plans, PrimeWest Health, South Country Health Alliance, and UCare complied with the legal and DHS contract requirements we tested for oversight of their respective pharmacy benefit managers. HealthPartners and Itasca Medical Care also generally complied with these requirements, although we identified some missing provisions related to subcontracts.

For the sample of pharmacy encounter records we tested, Blue Plus, Hennepin Health, HealthPartners, PrimeWest, and South Country Health Alliance complied with selected legal and DHS reporting requirements, and the payment information was accurate, complete, and timely. Itasca Medical Care, Medica Health Plans, and UCare Minnesota timely reported their encounter data but did not comply with DHS's contract requirement to report the amount that was paid to the pharmacy provider.

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Audit Overview

Minnesota statutes direct the Office of the Legislative Auditor (OLA) to audit managed care organizations (MCOs) that contract with the Department of Human Services (DHS) for Minnesota's public health care programs.[1] This report presents the results of an OLA compliance audit of MCOs' encounter data and medical expenses for Minnesota public health care programs.

DHS uses MCOs' medical and pharmacy encounter claims data for many purposes, including analyzing patient use of services, forecasting program costs, and setting future rates paid by DHS to MCOs for their services and expenses. DHS also sends information about MCO encounter data to the federal Centers for Medicare and Medicaid Services. Audits that examine the accuracy and completeness of the encounter data help determine its usability for these purposes.

For this compliance audit, we reviewed each MCO's pharmacy services contract with its pharmacy benefit manager (PBM) during the period of 2017 through 2018 for compliance with select DHS requirements for public health programs. We also tested a sample of each MCO's reported encounter data and payments to pharmacy providers during the period from January 2017 through June 2018. Finally, we reviewed each MCO's performance related to elements of DHS's encounter data quality assurance program.

Program Overview

Department of Human Services

The Department of Human Services is responsible for overseeing Minnesota's public health care programs, which include Medical Assistance (Minnesota's version of the federal Medicaid program) and MinnesotaCare (a federally-approved Basic Health Program for individuals who do not qualify for regular Medical Assistance). Together, these health care programs are referred to as Minnesota Health Care Programs, or MHCP. Our scope of audit work focused on MinnesotaCare and the following Medical Assistance programs: Minnesota Senior Care Plus (MSC+), Minnesota Senior Health Options (MSHO), Prepaid Medical Assistance Program (PMAP), and Special Needs BasicCare (SNBC).

Managed Care Organizations

As specified in federal and state laws, DHS contracts with MCOs to provide certain administrative functions and services to enrollees under public health care

[1] *Minnesota Statutes* 2018, 3.972, subd. 2b.

programs.[2] DHS contracted with eight MCOs to each provide services for one or more of these programs in 2017 and 2018. These MCOs included five entities licensed as health maintenance organizations (Blue Plus, HealthPartners, Hennepin Health, Medica, and UCare) and three "county-based purchasing organizations" (Itasca Medical Care, PrimeWest Health, and South Country Health Alliance).

Pharmacy Benefit Managers

Minnesota's public health care programs cover drugs for enrollees, with some exceptions, if prescribed by a licensed practitioner and dispensed by a licensed pharmacist.[3] MCOs may subcontract for administrative services—including the administration of pharmacy services—and must maintain current and fully signed contracts for those services.[4] Although an MCO may delegate certain functions to a subcontractor, the MCO is still ultimately responsible for ensuring compliance with DHS's contracts. Pharmacy benefit managers provide prescription drug services in accordance with federal, state, and MCO subcontract requirements. These delegated functions may include management of a pharmacy network, claims processing, creation of a preferred drug list, negotiating drug pricing and rebates with drug manufacturers, a customer call center, prior authorization processing, and other functions as agreed upon in the service contract with the MCO. Further, the MCOs are required to perform certain oversight activities of subcontractors to ensure compliance with program requirements. As shown in Exhibit 1, the eight MCOs subcontracted with the following PBMs in 2017 and 2018:

Exhibit 1: Managed Care Organizations and Subcontracted Pharmacy Benefit Managers, Calendar Years 2017 and 2018

Managed Care Organization	Pharmacy Benefit Manager
Blue Plus	Prime Therapeutics, LLC
HealthPartners	MedImpact Healthcare Systems, Inc.
Hennepin Health	Navitus Health Solutions, LLC
Itasca Medical Care	CaremarkPCS Health, LLC
Medica Health Plans	CaremarkPCS Health, LLC
PrimeWest Health	MedImpact Healthcare Systems, Inc.
South Country Health Alliance	PerformRx, LLC
UCare Minnesota	Express Scripts, Inc.

Source: Office of the Legislative Auditor.

Encounter and Claims Data Reporting

As part of program oversight, federal regulations require states to include in their contracts with MCOs certain requirements for reporting program costs and medical

[2] 42 *CFR*, sec. 438 (2018); and *Minnesota Statutes* 2018, 256B.035; and 256B.69, subd. 5a.

[3] *Minnesota Statutes* 2018, 256B.0625, subd. 13(a).

[4] *Minnesota Statutes* 2018, 256B.69, subd. 5a(m).

services.[5] In particular, MCOs must submit "encounter data" to the state agency (that is, DHS). Pharmacy encounter data are individual electronic records that document the prescription drugs received by a program enrollee and the pharmacy provider's claim and payment by the PBM, among other information.

Minnesota law supplements the federal reporting mandate by requiring the MCOs to provide to DHS biweekly encounter data and claims data for MHCP.[6] The volume of encounter records sent by MCOs to DHS is significant; in 2018, total pharmacy claims processed through DHS's Medicaid Management Information System (MMIS) exceeded 15.9 million claims.

Given the importance of encounter data in MHCP oversight, state law requires the MCOs to participate in a DHS quality assurance program that verifies the timeliness and completeness of the data through quality assurance protocols.[7] DHS staff actively monitor and evaluate encounter data submitted to the state and, within MMIS, DHS has an automated system of edits to read and code encounter records based on the accuracy or completeness of the data.[8] For example, DHS currently has 37 specific edits—including edits related to claim payment values or duplicate records—for which DHS will exclude an encounter record for future rate-setting purposes if it does not align with expected parameters. Some of these edits are specific to pharmacy claims, such as a missing National Drug Code or the drug quantity is missing or reported as zero. DHS also imposes monetary penalties against MCOs if they do not correct specified errors on their encounter records. We found that the DHS quality assurance program has resulted in improved reporting of encounter data to the department.

MCOs are responsible for managing all aspects of the claims process and encounter data submission to DHS. For prescription drugs, each MCO's pharmacy benefit manager electronically reviews each claim received by a pharmacy and will immediately approve or deny the claim for payment. Most providers submit claims through a "clearinghouse," where claim data are prepared to be sent to and further processed by the PBM. PBMs maintain contractual relationships with multiple clearinghouses, as providers have a choice in the clearinghouse they use. The process for preparing the pharmacy claims and reporting the encounter data is lengthy and involves multiple steps. Some of the eight MCOs wholly manage the encounter data submission process; others contract with third-party administrators for various encounter data functions. We illustrate and describe this process in more detail in Exhibit 2.

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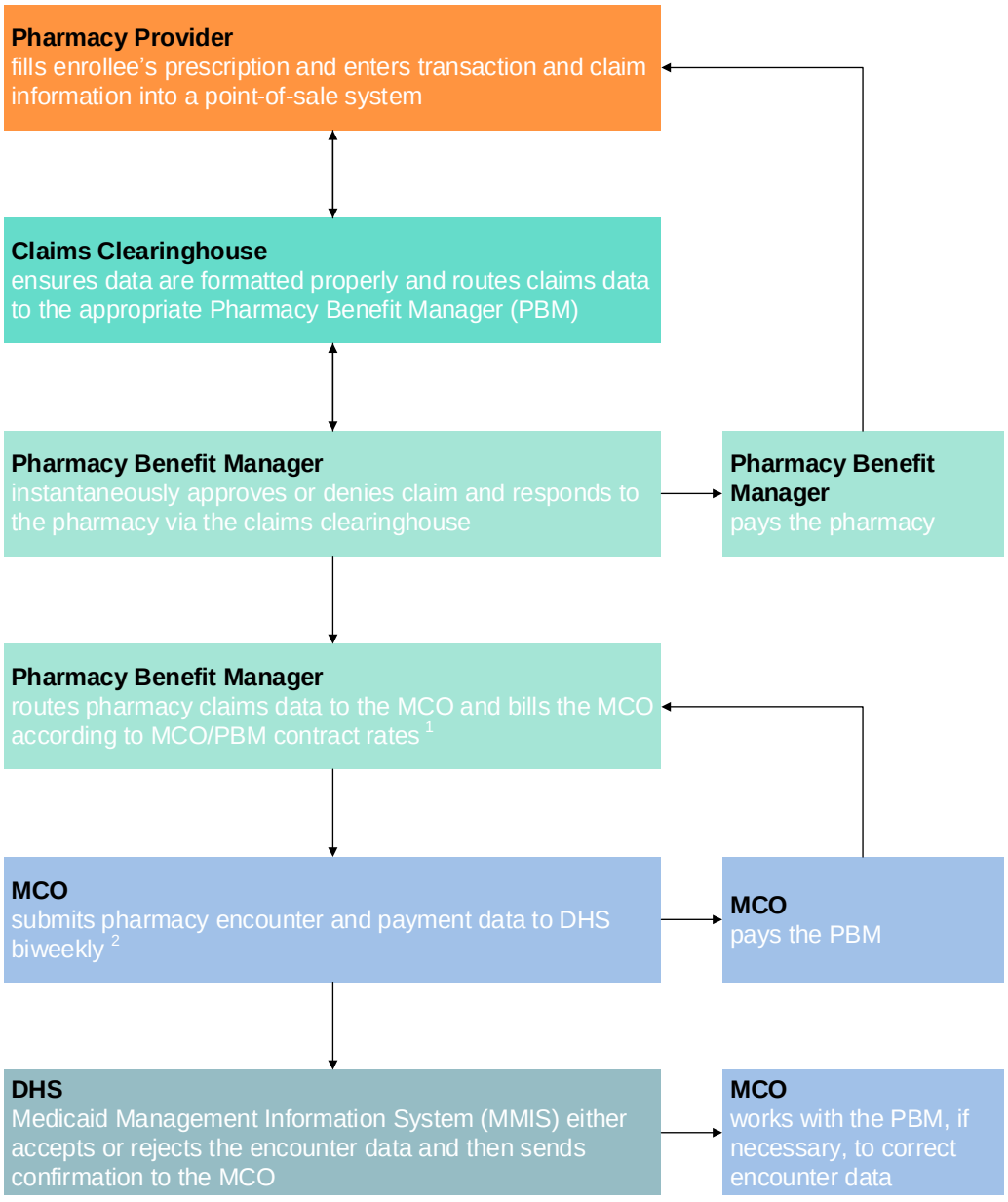
[5] 42 *CFR*, sec. 438.604 (2018).

[6] *Minnesota Statutes* 2018, 256B.69, subd. 9d(b).

[7] For information about this program, see Deloitte Consulting, LLP, *Department of Human Services, Encounter Data Quality Assurance Protocol Review* (St. Paul, June 2017).

[8] Edits are instructions written into software to verify and validate such things as the completeness, reasonableness, or accuracy of data. Electronic edits are used as initial checks on the integrity of data being used to conduct various types of electronic transactions, for example, payments.

Exhibit 2: Example of Pharmacy Claims Process and Encounter Data Reporting to the Department of Human Services.



Notes: This exhibit represents the flow of a claim that does not contain errors or other information requiring additional review. If a claim has errors or needs further examination, the processing entity will review, deny, or return the claim to a previous process. Pharmacy Benefit Managers (PBMs) use claim information systems to automatically approve or deny payments. If a PBM's information system is unable to automatically approve or deny payment, then PBM staff will manually process the claim.

[1] Each MCO contracts with a PBM to perform delegated functions.

[2] An MCO is responsible for managing all aspects of the encounter data submission process. Some MCOs wholly manage these functions; others contract with third-party administrators for various functions such as submitting encounter data to DHS.

SOURCE: Office of the Legislative Auditor.

Financial Activity

For calendar year 2018, the eight MCOs that administered public health care programs reported approximately $964 million in prescription drug expenses for MinnesotaCare, PMAP, MSHO, MSC+, and SNBC, shown in Exhibit 3.[9] The average monthly enrollment in these programs during this period totaled 961,000 individuals for all MCOs.

Exhibit 3: MHCP Prescription Drug Expenses, Calendar Year 2018

Managed Care Organization	Total Prescription Drug Expenses (in thousands)[a]	PMAP and MinnesotaCare Prescription Drug Expenses (per Member Month)	MSHO and MSC+ Prescription Drug Expenses (per Member Month)[a]	SNBC Prescription Drug Expenses (per Member Month)
Blue Plus[b]	$274,642	62.44	80.09	NA
HealthPartners	148,189	66.52	191.99	185.36
Hennepin Health[c]	29,735	79.88	NA	216.94
Itasca Medical Care[b]	9,057	88.88	79.44	NA
Medica Health Plans[d]	44,943	NA	77.84	201.44
PrimeWest Health	39,973	71.88	84.24	174.68[e]
South Country Health Alliance	37,055	67.42	64.46	171.59[e]
UCare Minnesota	380,648	86.93	142.12	267.13[e]
Total	$964,241			

Note: Totals include MCO-reported pharmacy and prescription drug expenses for PMAP, MinnesotaCare, MSHO, MSC+, and SNBC.

[a] Enrollees in MSHO and MSC+ may have some or all prescription drug expenses covered by Medicare.

[b] Blue Plus and Itasca Medical Care did not have a contract with DHS for SNBC in 2018.

[c] Hennepin Health did not have a contract with DHS for seniors in 2018.

[d] Medica Health Plans did not have a contract with DHS for PMAP and MinnesotaCare in 2018.

[e] SNBC members who are enrolled in both Medical Assistance and Medicare may have some or all prescription deug expenses covered by Medicare.

SOURCE: Office of the Legislative Auditor's summary of MCOs' 2018 Supplement Report #1, Statement of Revenue, Expenses, and Net Income.

Audit Scope

This audit focused on certain legal and DHS contract requirements and MCO encounter data and payments to pharmacy providers reported by MCOs for the MinnesotaCare, MSHO, MSC+, PMAP, and SNBC programs during calendar years 2017 and 2018.[10] We audited the activities of all eight MCOs under contract with DHS for one or more of these programs.

[9] This total includes some prescription expenses paid for by Medicare.

[10] For this audit, we focused on claims for payment of prescription drugs.

Audit Objectives

The objectives of this compliance audit were to answer the following questions:

- Did the MCOs comply with significant legal and DHS contract requirements for oversight of pharmacy benefit managers?
- To what extent did the MCOs report accurate, complete, and timely pharmacy claims and expense data?

Audit Methodology and Criteria

To answer the audit objective questions, we reviewed federal and state laws, contract requirements, and DHS guidance to MCOs to administer public health care programs and to report encounter data to DHS. To gain an understanding of the end-to-end pharmacy claims and encounter data submission processes, we interviewed DHS staff as well as representatives of each MCO, each MCO's pharmacy benefit manager, and any MCO's third party vendor that submits encounter data. We also reviewed summary financial and pharmacy expense data reported by each MCO to DHS.

We also reviewed contracts between each MCO and their PBM to gain an understanding of the agreement and functions that were delegated to PBMs. We tested each MCO's contract with its PBM for compliance with certain legal and DHS contract requirements regarding subcontracts. We gained an understanding of each MCO's oversight activities of its PBM and reviewed each MCO's most recently completed delegation audit report for their PBM.

We also reviewed documentation and MCO data related to DHS's encounter data quality assurance program. Specifically, we examined MCO compliance in 2017 and the first three quarters of 2018 with DHS benchmarks for not reporting claims with missing National Drug Codes and for not reporting duplicate claims.

To assess each MCO's compliance with legal and DHS contract requirements, we obtained select encounter records from DHS that represented the final outcomes of pharmacy claims submitted by providers to each PBM for payment. Using a combination of sampling methods, we tested a total of 200 pharmacy claims from 148 providers (or their claims billing administrator) to determine payment accuracy and completeness and timeliness of MCO reporting. Specifically, we tested a sample of 25 final claims reported by each MCO to DHS as paid to pharmacy providers during the period from January 2017 through June 2018. Our sample sizes were intended for audit control and compliance purposes and were not large enough to be representative of the claims of each individual MCO for statistical projections of overpayments or underpayments. We then obtained source documents—including bank statements, explanation of payments, and remittance advices—directly from pharmacy providers to independently verify actual claim payments against DHS encounter data and to confirm that the encounter records reflected valid pharmacy services for public program enrollees.

Findings and Recommendations

As part of administering public health care programs, DHS requires MCOs to have program controls and processes to ensure that services to enrollees are provided in accordance with state and federal law. In the case of pharmacy services, MCOs that subcontract with pharmacy benefit managers for administrative services must still ensure that program requirements are met. We identified key provisions within the DHS MHCP contracts and state and federal law that we determined were important for purposes of program oversight. We then compared the MCOs' contracts and agreements with their pharmacy benefit managers against these key criteria.

DHS also has requirements for the MCOs to report to the department certain information about pharmacy claims, prescription drugs, and payments to providers.[11] This information helps the department understand service costs and utilization of drugs by MHCP enrollees. We tested a sample of 25 pharmacy encounter records for each MCO to determine whether the MCO complied with selected DHS reporting requirements in its 2017 and 2018 MHCP contracts. Specifically, we reviewed each sample record to determine whether: (1) the encounter claim record matched the amount paid to the pharmacy provider and other information—such as member enrollee name—in documents we obtained from the pharmacy; and (2) the MCO submitted the encounter record to DHS in a timely manner.

Exhibit 4 summarizes the results of our audit and identifies each MCO for which we found that the MCO did not comply with one or more legal or DHS contract criteria that we tested.

[11] Federal Medicaid law 42 *CFR* 400.203 (2018), defines a provider for a managed care program as "…any individual or entity that is engaged in the delivery of health care services and is legally authorized to do so by the State in which it delivers the services." Further, 42 *CFR* 440.120(a) (2018), defines "services" for prescribed drugs as "dispensed by licensed pharmacists and licensed authorized practitioners in accordance with the State Medical Practice Act; and dispensed by the licensed pharmacist or practitioner on a written prescription that is recorded and maintained in the pharmacist's or practitioner's records." For purposes of ensuring enrollee accessibility to health care services (in the case of pharmacy services, prescription drugs), DHS in its contracts requires each MCO to submit to DHS an electronic listing of its providers on a monthly basis. For its providers, each MCO also must adopt a uniform credentialing and recredentialing process and comply with that process consistent with state regulations.

Exhibit 4: Summary of Audit Findings, by Managed Care Organization, Contract Years 2017 and 2018

Managed Care Organization	Contract Finding	Sample Encounter Record Finding
Blue Plus		
HealthPartners	X	
Hennepin Health		
Itasca Medical Care	X	X
Medica Health Plans		X
PrimeWest Health		
South Country Health Alliance		
UCare Minnesota		X

Note: An "X" indicates an OLA finding in which the MCO did not comply with tested criteria.

Source: Office of the Legislative Auditor summary of audit findings.

We further explain our findings for HealthPartners, Itasca Medical Care, Medica, and UCare in the next sections.

FINDING 1

HealthPartners did not address two key federal requirements in its contract with its pharmacy benefit manager.

DHS's contracts with MCOs require the MCOs and their subcontractors to comply with all applicable federal and state laws.[12] We reviewed HealthPartners' contract with its pharmacy benefit manager and tested the contract against certain oversight provisions in the DHS contracts. We found that HealthPartners' contract with its PBM did not require the PBM to (1) assure the MCO that no agreements exist with an entity or individual excluded from participation in any federal health care program, and (2) report information regarding individuals who have been convicted of a criminal offense related to certain public programs.[13]

[12] Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with HealthPartners, Inc.* (2017 and 2018), Article 9.1, which states, "The MCO and its subcontractors shall comply with all applicable federal and state statutes and regulations…."

[13] 42 *CFR*, sec. 438.808 (2018), states that an entity that has a substantial contractual relationship, either directly or indirectly, with an individual convicted of certain crimes or who is debarred, suspended, or meets other federally defined circumstances, must be excluded from participating in federal programs. Also, see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with HealthPartners, Inc.* (2017 and 2018), Articles 9.3.16(C) and (D), which state, "(C) The MCO must require subcontractors to assure to the MCO that no agreements exist with an excluded entity or individual for the provision of items or services related to the MCO's obligation under this Contract. (D) The MCO shall require all subcontractors to report to the MCO within five (5) days any information regarding individuals or entities…who have been convicted of a criminal offense related to the involvement in any [public health care program]."

DHS relies on MCOs and subcontractors to comply with federal and state laws and ensure each MCO pays public funds to only those entities permitted to provide medical care and services under the Medicaid program.

RECOMMENDATION

HealthPartners should ensure that its MCO subcontracts include all terms required by state and federal law.

FINDING 2

Itasca Medical Care did not address four key state and federal requirements in its contract with its pharmacy benefit manager.

DHS's contracts with MCOs require the MCOs and their subcontractors to comply with all applicable federal and state laws.[14] We reviewed Itasca Medical Care's contract with its pharmacy benefit manager and tested the contract against certain provisions in the DHS contracts.

We found that Itasca Medical Care's contract with its PBM did not identify how the services were related to public health care programs, and it did not require that the PBM allow federal and state authorities to audit the PBM.[15] The MCO's contract also did not require the PBM to (1) assure the MCO that no agreements exist with an entity or individual excluded from participation in any federal health care

[14] Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with Itasca Medical Care* (2017 and 2018), Article 9.1, which states, "The MCO and its subcontractors shall comply with all applicable federal and state statutes and regulations.…"

[15] *Minnesota Statutes* 2018, 256B.69, subd. 5a(m), requires that a MCO's subcontract must contain information as to how the subcontractor services relate to state public health care programs. Also see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with Itasca Medical Care* (2017 and 2018), Article 9.3.1(B), which states, "Subcontractor agreements determined to be material…must [describe] how the subcontractor services relate to MHCP." 42 *CFR* 438.3(h) (2018), requires all contracts to provide that the state, CMS, the Office of the Inspector General, the Comptroller General, and their designees may, at any time, inspect and audit the MCO or its subcontractors for a period of ten years. Also see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with Itasca Medical Care* (2018), Article 9.3.2, which states, "The MCO shall require that all subcontractors shall provide CMS, the HHS Inspector General, the Comptroller General, or their designees, and the STATE with the right to inspect, evaluate, and audit…any subcontractor…."

program, and (2) report information regarding individuals who have been convicted of a criminal offense related to certain public programs.[16]

DHS relies on MCOs to ensure that public funds are used to pay for public health care services. DHS also relies on MCOs and subcontractors to comply with federal and state laws and ensure each MCO pays public funds to only those entities permitted to provide medical care and services under the Medicaid program.

RECOMMENDATION

Itasca Medical Care should ensure that its MCO subcontracts include all terms required by state and federal law.

FINDING 3

Itasca Medical Care did not comply with a Department of Human Services' requirement to report in its encounter data the amounts that were paid to pharmacy providers. Instead, Itasca Medical Care reported the claim amounts that the MCO paid to its pharmacy benefit manager.

In DHS's contracts with MCOs, the department requires the MCOs to submit on their encounter records the amounts that were paid to their pharmacy providers under MHCP.[17] We tested 25 sample encounter records and the related pharmacy claims for Itasca Medical Care and verified that the encounter records reflected

[16] 42 *CFR*, sec. 438.808 (2018), states that an entity that has a substantial contractual relationship, either directly or indirectly, with an individual convicted of certain crimes or who is debarred, suspended, or meets other federally defined circumstances, must be excluded from participating in federal programs. Also see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with Itasca Medical Care* (2017 and 2018), Articles 9.3.16(C) and (D), which state, "(C) The MCO must require subcontractors to assure to the MCO that no agreements exist with an excluded entity or individual for the provision of items or services related to the MCO's obligation under this Contract. (D) The MCO shall require all subcontractors to report to the MCO within five (5) days any information regarding individuals or entities…who have been convicted of a criminal offense related to the involvement in any [public health care program]."

[17] *Minnesota Statutes* 2018, 256B.69, subd. 9d(b), states, "Each managed care plan and county-based purchasing plan providing services under this section shall provide to the commissioner biweekly encounter data and claims data for state public health care programs.…" Also see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with Itasca Medical Care* (2017 and 2018), Article 3.6.1(B)(5), which states, "The MCO shall submit on the encounter claim for NCPDP Batch 1.2/D.0…the Provider allowed and paid amounts. For the purposes of this section 'paid amount' is defined as the amount paid to the Provider excluding Third Party Liability, Provider withhold and Provider incentives, and Medical Assistance cost-sharing." Also see Minnesota Department of Human Services, *Contract for Minnesota Senior Health Options and Minnesota Senior Care Plus Services with Itasca Medical Care* (2017 and 2018), Article 3.7.1(B)(5)(a).

valid pharmacy services for public program enrollees and were timely reported to DHS. We also confirmed the accuracy of payments reported by the MCO to DHS by comparing these sample records with actual payments to pharmacy providers. We found that, for 19 of 20 encounter records involving MHCP payments, Itasca Medical Care did not accurately report the amount that was paid to the pharmacy providers.[18] Instead, Itasca Medical Care reported to DHS the claim amounts that the MCO paid to its pharmacy benefit manager under the provisions of its subcontract.[19]

DHS relies on encounter data for many purposes, and accurate and complete claims records are critical to support the usability of the information. Among our sample records with errors, the difference between the paid amounts that were reported in the DHS encounter records and the actual payments to pharmacy providers varied. We do not further discuss the nature of these differences as these data are classified as nonpublic under state law and the DHS contract.[20] The MCO and its pharmacy benefit manager also have classified this information as trade secret.

RECOMMENDATION

Itasca Medical Care should comply with the Department of Human Services' contract requirement to report in its encounter data the amounts that were paid to pharmacy providers.

FINDING 4

Medica Health Plans did not comply with a Department of Human Services' requirement to report in its encounter data the amounts that were paid to pharmacy providers. Instead, Medica reported the amounts that the MCO paid its pharmacy benefit manager for pharmacy provider services.

In DHS's contracts with MCOs, the department requires the MCOs to submit on their encounter records the amounts that were paid to their pharmacy providers

[18] The remaining 5 of 25 claims were for MSHO enrollees, in which the pharmacy provider may have also received a payment from Medicare Part D. The requirement to report the provider paid amount excludes claims paid by Medicare Part D. See Minnesota Department of Human Services, *Contract for Minnesota Senior Health Options and Minnesota Senior Health Care Plus Services with Itasca Medical Care* (2017 and 2018), Article 3.7.1(B)(5)(a).

[19] This is according to Itasca Medical Care representatives.

[20] *Minnesota Statutes* 2018, 256B.69, subd. 9c(a); and, for example, Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare with Itasca Medical Care* (2017 and 2018), Article 3.6.1(B)(5).

under MHCP.[21] We tested 25 sample encounter records and the related pharmacy claims for Medica Health Plans (Medica) and verified that the encounter records reflected valid pharmacy services for public program enrollees and were timely reported to DHS. We also confirmed the accuracy of the payments reported by the MCO to DHS by comparing these sample records with actual payments to pharmacy providers. We found that, for 21 of 23 encounter records involving MHCP payments, Medica did not accurately report the amount that was paid to the pharmacy providers.[22] Instead, Medica reported to DHS the amounts that the MCO paid its pharmacy benefit manager for pharmacy provider services.[23]

DHS relies on encounter data for many purposes, and accurate and complete claims records are critical to support the usability of the information. Among our sample records with errors, the difference between the Medica paid amounts that were reported in the DHS encounter records and the actual payments to pharmacy providers varied. We do not further discuss the nature of these differences as these data are classified as nonpublic under state law and the DHS contract.[24] The MCO and its pharmacy benefit manager also have classified this information as trade secret.

RECOMMENDATION

Medica Health Plans should comply with the Department of Human Services' contract requirement to report in its encounter data the amounts that were paid to pharmacy providers.

[21] *Minnesota Statutes* 2018, 256B.69, subd. 9d(b) states, "Each managed care plan and county-based purchasing plan providing services under this section shall provide to the commissioner biweekly encounter data and claims data for state public health care programs…." Also see Minnesota Department of Human Services, *Contract for Medical Assistance and MinnesotaCare Services with Medica Health Plans* (2016), Article 3.6.1(B)(5), which states, "The MCO shall submit on the encounter claim for NCPDP Batch 1.2/D.0…the Provider allowed and paid amounts. For the purposes of this section 'paid amount' is defined as the amount paid to the Provider excluding Third Party Liability, Provider withhold and incentives, and Medical Assistance cost-sharing." Also see Minnesota Department of Human Services, *Contract for Minnesota Senior Health Options and Minnesota Senior Care Plus Services with Medica Health Plans* (2017 and 2018), Article 3.7.1(B)(5)(a).

[22] The remaining 2 of 25 sample claims were for MSHO enrollees, in which the pharmacy provider may have also received a payment from Medicare Part D. The requirement to report the provider paid amount excludes claims paid by Medicare Part D. See Minnesota Department of Human Services, *Contract for Minnesota Senior Health Options and Minnesota Senior Care Plus Services with Medica Health Plans* (2017 and 2018), Article 3.7.1(B)(5)(a).

[23] This is according to Medica Health Plans representatives.

[24] *Minnesota Statutes* 2018, 256B.69, subd. 9c(a); and, for example, Department of Human Services, *Contract for Medical Assistance and MinnesotaCare Services with Medica Health Plans* (2016), Article 3.6.1(B)(5).

FINDING 5

UCare Minnesota did not comply with a Department of Human Services' requirement to report in its encounter data the amounts that were paid to pharmacy providers. Instead, UCare reported the per-claim amounts that the MCO paid to its pharmacy benefit manager.

In DHS's contracts with MCOs, the department requires the MCOs to submit on their encounter records the amounts paid to their pharmacy providers under MHCP.[25] We tested 25 sample encounter records and related pharmacy claims for UCare Minnesota (UCare) and verified that the encounter records reflected valid pharmacy services for public program enrollees and were timely reported to DHS. We also confirmed the accuracy of payments reported by the MCO to DHS by comparing these sample records with actual payments to pharmacy providers. We found that, for 20 of 20 encounter records involving MHCP payments, UCare did not accurately report the amount that was paid to the pharmacy providers.[26] Instead, UCare reported to DHS the per-claim amounts that the MCO paid its pharmacy benefit manager.[27] Additionally, UCare incorrectly included non-claim costs in these paid amounts.[28] UCare did disclose the inadvertent inclusion of non-claim administrative fees in its encounter data to DHS and provided DHS with corrected information during our audit.

DHS relies on encounter data for many purposes, and accurate and complete claims records are critical to support the usability of the information. Among our sample records with errors, the difference between the UCare paid amounts that were

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[25] *Minnesota Statutes* 2018, 256B.69, subd. 9d(b) states, "Each managed care plan and county-based purchasing plan providing services under this section shall provide to the commissioner biweekly encounter data and claims data for state public health care programs…." Also see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare Services with UCare Minnesota* (2017 and 2018), Article 3.6.1(B)(5), which states, "The MCO shall submit on the encounter claim for NCPDP Batch 1.2/D.0…the Provider allowed and paid amounts. For the purposes of this section 'paid amount' is defined as the amount paid to the Provider excluding Third Party Liability, Provider withhold and Provider incentives, and Medical Assistance cost-sharing." Also see Minnesota Department of Human Services, *Contract for Minnesota Senior Health Options and Minnesota Senior Care Plus Services with UCare Minnesota* (2017 and 2018), Article 3.7.1(B)(5)(a).

[26] The remaining 5 of 25 sample claims were for SNBC and MSHO enrollees in which the pharmacy provider may have also received a payment from Medicare Part D. The SNBC enrollees may have received services as part of integrated Medicare and Medicaid services, and the requirements to report the provider paid amount do not apply to claims paid by Medicare Part D.

[27] This is according to UCare representatives.

[28] 42 *CFR* 438.8(e)(2)(v) defines amounts paid to third party vendors for network development, administrative fees, claims processing, and utilization management as "non-claim" costs. Also see Minnesota Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare Services with UCare Minnesota* (2017 and 2018), Article 3.6.1(B)(1), which states that the MCO shall provide to the State "Individual Enrollee-specific, claim-level encounter data for services provided by the MCO to Enrollees detailing all medical and dental diagnostic and treatment encounters, all pharmaceuticals, supplies and medical equipment dispensed to Enrollees…."

reported in the DHS encounter records and the actual payments to pharmacy providers varied due to the nature of UCare's contract with its pharmacy benefit manager. We do not further discuss the nature of these differences as these data are classified as non-public under state law and the DHS contract.[29] The MCO and its pharmacy benefit manager also have classified this information as trade secret.

RECOMMENDATION

UCare Minnesota should comply with the Department of Human Services' contract requirement to report in its encounter data the amounts that were paid to pharmacy providers.

[29] *Minnesota Statutes* 2018, 256B.69, subd. 9c(a); and, for example, Department of Human Services, *Contract for Prepaid Medical Assistance and MinnesotaCare Services with UCare Minnesota* (2018), Article 3.6.1(B)(5).

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BlueCross BlueShield Minnesota

May 15, 2019

VIA ELECTRONIC MAIL

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul MN, 55155

Re: Final Audit Report - Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data

Dear Mr. Nobles:

HMO Minnesota d/b/a Blue Plus ("Blue Plus") appreciates the opportunity to review and respond to the Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data audit report dated May 14, 2019 ("Report").

In the Report, the Office of Legislative Auditor ("OLA") concluded that Blue Plus complied with legal and Minnesota Department of Human Services ("DHS") contract requirements for oversight of its pharmacy benefit manager, as reviewed during the audit. OLA also concluded that based on the sample of pharmacy encounter records tested, Blue Plus complied with the selected legal and DHS reporting requirements and the payment information reviewed was accurate, complete, and timely. Blue Plus agrees with the conclusions stated in the Report.

Blue Plus appreciates the efforts of the OLA in performing this audit.

Sincerely,

Frank Fernández
President & Chief Executive Officer
HMO Minnesota d/b/a Blue Plus


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May 16, 2019

James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building, Room 140
658 Cedar Street
Saint Paul, MN 55155-1603

Dear Mr. Nobles:

HealthPartners appreciates the opportunity to review and respond to the draft report *Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data* completed by the Office of the Legislative Auditor ("OLA"). We appreciate the thoroughness and professionalism of the OLA team members who conducted the audit.

HealthPartners has reviewed the report and agrees with the conclusion that we complied with the selected legal and DHS reporting requirements, and that the payment information was accurate, complete and timely. We believe this audit affirms our effective processes and controls related to claims and encounter data reporting. We are currently updating the contract language with our PBM to include the required provisions, which were absent from our PBM contract due to an administrative error that only affected this contract. The required provisions are included in our other subcontracts and all provider contracts.

Once again, we appreciate the efforts of the OLA and the audit team that performed this audit.

Sincerely,

Sharilyn Campbell
Health Plan CFO and Chief Accounting Officer


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Hennepin Health
Minneapolis Grain Exchange Building
400 South Fourth Street, Suite 201
Minneapolis, MN 55415

May 16, 2019

Jim Nobles, Legislative Auditor
Office of the Legislative Auditor
Finance Division
140 Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155

Re: Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data

Dear Mr. Nobles,

Hennepin Health was engaged by the Office of the Legislative Auditor (OLA) through a notice of intent to audit dated August 6, 2018. This notice informed Hennepin Health of the OLA's intent to conduct an audit related to pharmacy expense data reporting to the Minnesota Department of Human Services (DHS) via encounter data.

Throughout the duration of the audit, Hennepin Health provided the information requested by the OLA in a timely manner. Hennepin Health has had an opportunity to review the preliminary audit findings provided to Hennepin Health on April 22, 2019, and to discuss these findings with the OLA. The final report was issued to Hennepin Health on May 14, 2019. Hennepin Health has had the opportunity to review the final audit report as well. The OLA has concluded that Hennepin Health has complied with DHS' reporting requirements and all payment information was complete and accurate. Hennepin Health agrees with this conclusion.

Hennepin Health appreciates the opportunity to have the OLA review our processes and values the feedback provided by your staff during the audit process and in the final report. Please let us know if we may provide any additional information or otherwise be of assistance to the OLA as you complete your work on pharmacy expense data.

Sincerely,

Anne Kanyusik Yoakum
Chief Executive Officer


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May 15, 2019

VIA ELECTRONIC MAIL

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Re: Financial Audit Report – Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data

Dear Mr. Nobles:

This letter serves as response to the draft report *Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data* dated May 14, 2019. IMCare has reviewed the results of the draft report and we are in agreement with the report at this time.

Sincerely,

Sarah Duell
Itasca Medical Care - CEO
1219 SE 2nd Avenue
Grand Rapids, MN 55744
sarah.duell@co.itasca.mn.us


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PO Box 9310
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MEDICA®

May 16, 2019

Ms. Valerie Bombach
Office of the Legislative Auditor
658 Cedar Street, Suite 140
St. Paul, MN 55155

Dear Ms. Bombach:

Thank you for the opportunity to submit a letter in response to the Office of the Legislative Auditor ("OLA") draft audit report, titled "Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data," dated May 14, 2019 (the "OLA Report"). Medica Health Plans ("Medica") respectfully disagrees with the Medica finding in the report.

Medica submits timely, accurate and complete pharmacy encounter data to the Minnesota Department of Human Services ("DHS") in accordance with instructions Medica receives from DHS. A primary reason for encounter data submission[1] is to determine future rate setting for Medicaid products. Encounter data is meant to reflect the amount Medica pays to provide pharmacy services to its members. Medica has shared with the OLA written evidence that DHS requires managed care organizations ("MCOs") to ensure that encounter data supports an MCO's reported financial data.

For example, in an email to MCOs dated January 7, 2019, DHS makes clear that encounter data should match MCOs' financial reporting to DHS. In addition, at a DHS and MCO encounter data quality meeting held on April 10, 2019, DHS again emphasized in a slide presentation that the encounter data should match MCOs' reported financial data. Medica follows these instructions from DHS by applying a rigorous process to review all encounter data submitted to DHS for accuracy and to ensure that it matches Medica's financial data. Medica's reporting of the amounts paid to pharmacy providers as recommended in the OLA Report would prevent Medica from following DHS' stated intent to have the encounter data match the financial data.

Medica's current encounter data reporting process is consistent with previous DHS direction, and the OLA has shared no written DHS instructions to the contrary.

Thank you for the opportunity to respond.

Respectfully,

Thomas Lindquist
SVP, Government Programs

[1] Encounter data submission is required by Section 3.6.1(B)(5) of the 2016 DHS Families and Children's Contract.


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May 14, 2019

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dr. Mr. Nobles:

PrimeWest Health has reviewed the May 14, 2019, draft of the audit report titled *Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data*. PrimeWest Health agrees with the conclusions regarding PrimeWest Health, and we have no additional comments.

Thank you for the opportunity to review the draft report prior to finalization and for the professional manner in which the audit was conducted.

Sincerely,

James A. Przybilla, Chief Executive Officer
PrimeWest Health


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May 16, 2019

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles,

South Country Health Alliance received a copy of the draft audit report on May 14, 2019. We do not have any comments at this time.

Please let me know if you need any additional information.

Sincerely,

Leota B. Lind

Leota B. Lind
CEO

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ucare

May 16, 2019

James R. Nobles
Legislative Auditor

Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to provide comments in response to the Office of the Legislative Auditor's (OLA) report titled Managed Care Organizations: Oversight of Pharmacy Benefit Managers and Reporting of Pharmacy Data (Report). We appreciate the professional manner with which the OLA staff conducted their audit work.

UCare has reviewed the Report and is pleased with the OLA's conclusion that UCare complied with the legal and Department of Human Services (DHS) contract requirements tested for oversight of our pharmacy benefit manager. We are also pleased that, for the sample of pharmacy encounter records tested, the OLA found that UCare reported its encounter data timely to the DHS. However, the report found that UCare did not comply with a DHS requirement to report in its encounter data the amounts that were paid to pharmacy providers and notes that UCare reported the per-claim amounts paid to its pharmacy benefit manager (PBM), including certain non-claim costs.

UCare appreciates the opportunity to provide the following response to this finding in writing below.

UCare Response

During the time period under review, UCare did in fact report in our DHS encounter data paid amounts representing the amounts that UCare, as a plan, paid per claim as billed to UCare by our PBM. The paid amounts UCare reported in pharmacy claim encounters represent the actual per claim cost to UCare of providing pharmacy benefits to members enrolled in Minnesota Health Care Programs (MHCP). There are a number of factors that led UCare to believe that reporting encounters in this manner complied with DHS contract requirements, as well as supplied information that best supported DHS' intended uses for encounter data. Those factors include:

- **Definition of Provider** – As highlighted in OLA Report Footnote 11, Managed Care Organizations (MCO's) are required to submit on an encounter claim Provider allowed and paid amounts. Provider is defined broadly in DHS contracts as "an individual or entity that is engaged in the delivery of services under this Contract, or ordering or referring for those services..." UCare believed that this definition could include a PBM as the organization engaged to deliver pharmacy benefit services, and that therefore UCare's payments to its contracted PBM would be consistent with the DHS contract. In addition, in the NCPDP Batch 1.2 Encounter Companion Guide published by DHS, which provides the data field specifications for encounter records, DHS requires MCOs to report in the Pharmacy Provider field the MCO's Unique Minnesota Provider Identifier, rather than a PBM or pharmacy identifying number. Based on this designation in the companion guide to use

the MCO as the Pharmacy Provider for encounter records, UCare's understanding was that DHS was seeking UCare-paid amounts in encounter records instead of payments to pharmacies.

- **Intended Uses of Encounter Data** – As noted in the OLA Report and in MCO contracts, DHS uses encounter data for many purposes, including analyzing patient use of services, forecasting program costs, determining total cost of care and setting future rates paid by DHS to MCOs for their services and expenses. In addition, the 2019 MCO Families and Children's contracts added a new requirement to reconcile encounter data to quarterly reported financial data and assesses penalties for significant variances. These stated uses and requirements indicated to UCare an expectation by DHS that encounter data reported should be consistent with reported financial information. By reporting the UCare-paid per-claim amounts to the PBM, encounter data reflected the most accurate information regarding a member's total cost of care to the program and the most consistent data with reported financial information. Overall, UCare believed that reporting per-claim paid amounts to the PBM in encounter data best supported DHS' intended uses for encounter information.

Additionally, the OLA Report noted that UCare incorrectly included non-claim costs in the reported paid amounts. As the report indicates, UCare became aware of the inadvertent inclusion of non-claim administrative fee amounts in our encounter records. This represented a processing error that was discovered as a result of UCare's review of encounter records. UCare promptly disclosed the error to DHS and provided information on the correction. The reporting error has been corrected since October 12, 2018.

Overall, UCare values our partnership with the State and the coverage and services we are able to provide for our members. To that end, we are dedicated to ensuring that UCare follows all regulatory and contractual requirements as well as producing encounter data that is accurate, complete and meets the needs of DHS. While UCare believes that our reporting of encounter claims paid information was generally consistent with requirements and represented information that supported DHS intended uses, UCare is committed to making the necessary changes to encounter reporting as desired by DHS to comply with the program's contractual requirements and data needs.

Sincerely,

Beth Monsrud

Beth Monsrud
Chief Financial Officer
UCare Minnesota

Minnesota Department of Human Services
Elmer L. Andersen Building
Commissioner Tony Lourey
Post Office Box 64998
St. Paul, Minnesota 55164-0998

May 16, 2019

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Legislative Auditor Nobles:

Thank you for the opportunity to review and comment on your office's report titled *Managed Care Organizations: Oversight of Pharmacy Benefits Managers and Reporting of Pharmacy Data*. We, at the Department of Human Services (DHS), appreciate the effort and professionalism of you and your staff as your office completed their work on this project.

We also appreciate the acknowledgement by the OLA that we have made significant progress in the quality and oversight of encounter data submitted by our contracted managed care organizations (MCOs). We understand the audit findings represent two areas where additional follow up is needed by Department staff: 1) MCO subcontracts with their pharmacy benefit managers (PBMs) need to ensure state and federal program integrity requirements are represented and enforced in these contracts; and 2) encounter data submitted by the MCOs or by their subcontractor must include the amount paid to licensed providers per DHS contract requirements, not the amount paid to the PBMs, to ensure that all financial data is appropriately classified as medical or administrative and reconciled for the purposes of rate-setting and compliance with federal minimum loss ratio requirements.

Thank you again for the professional and dedicated efforts of you and your staff during this audit. The Department's policy is to follow up on all findings to evaluate the progress made to resolve them. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

/s/
Tony Lourey
Commissioner


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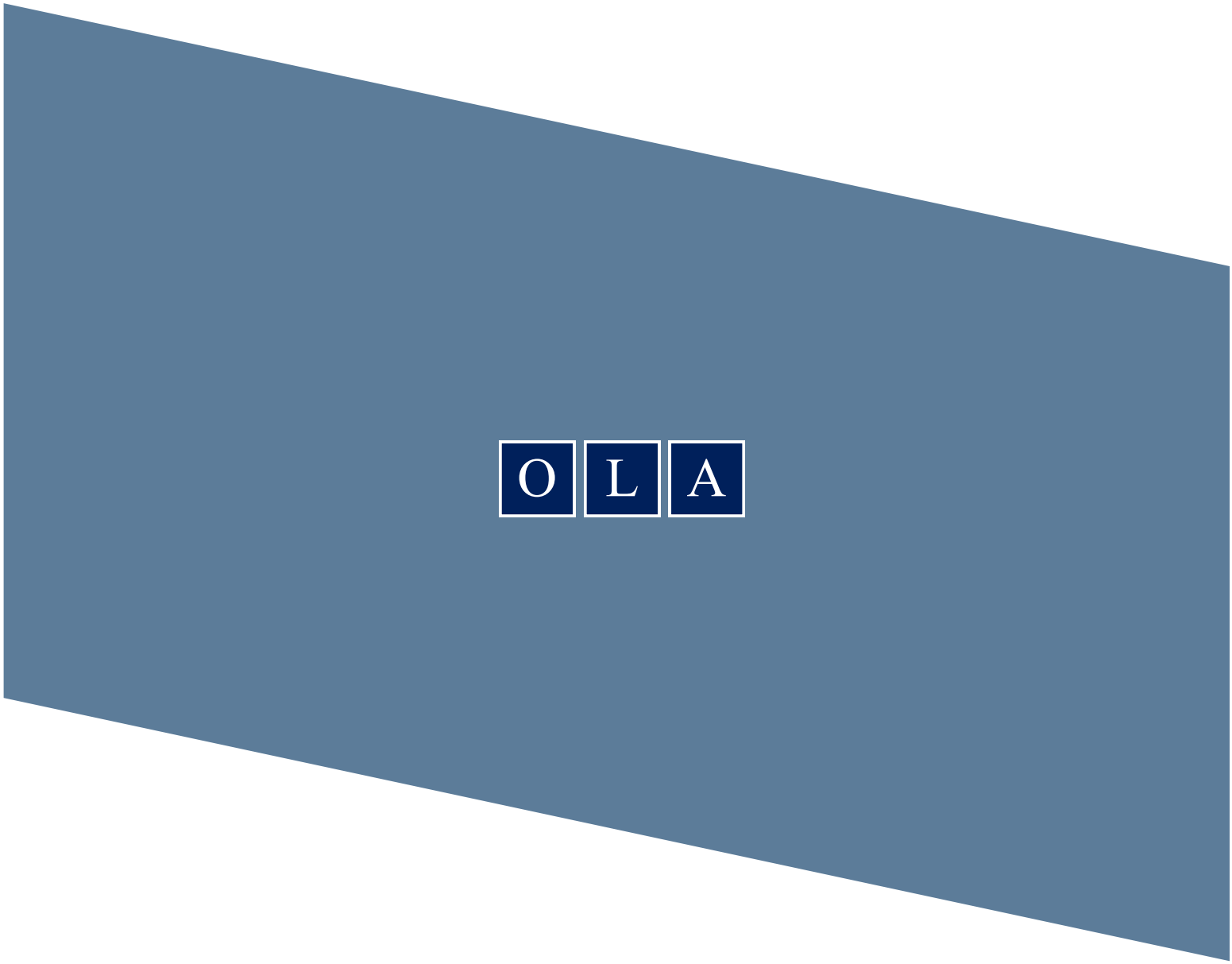

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