



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON AUDIT
OF
CARELONRX, INC.
ST. LOUIS, MISSOURI

FOR THE YEAR ENDED
DECEMBER 31, 2023

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St. Louis, Missouri
June 24, 2025

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-7-3101 and Tenn. Comp. R. & Regs. § 0780-01-95-.11, a statutory audit, as of December 31, 2023, has been made of the condition and affairs of:

CARELONRX, INC.
1831 Chestnut St.
St. Louis, Missouri 63103

Hereinafter referred to as “CarelonRx” or the “Company” and a report thereon is submitted as follows:

INTRODUCTION

This audit was arranged by the Tennessee Department of Commerce and Insurance (“TDCI” or “Department”) and was conducted by duly authorized representatives of the Department.

SCOPE OF AUDIT

This is the first audit of the Company. This audit covered the period of January 1, 2023, through December 31, 2023, and included any material transactions and/or events occurring subsequent to the audit date, which were noted during the course of the audit.

The audit was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the *NAIC Market Regulation Handbook* (“Handbook”), as deemed appropriate. The audit was planned and performed to evaluate the Company’s compliance with Tennessee statutes and regulations, as of December 31, 2023.

COMPANY HISTORY

The Company is a wholly-owned subsidiary of Carelon Holdings, Inc., which is a wholly-owned subsidiary of Elevance Health, Inc. (“Elevance Health”), a publicly traded company formerly known as Anthem, Inc. until 2022.

The Company was formed by Anthem, Inc. in 2017 as IngenioRx, Inc. in Indianapolis, Indiana. The Company began providing Pharmacy Benefit Management Services in 2019 and received its Tennessee Pharmacy Benefit Manager (“PBM”) license on February 1, 2019. This license was in force for the period under audit.

At the beginning of 2023, IngenioRx began operating under the name CarelonRx, Inc. CarelonRx provides integrated PBM services to Elevance Health and its affiliates, as well as unaffiliated health insurers and third-party administrators. CarelonRx retains the responsibilities for clinical and formulary strategy and development, member and employer experiences, operations, sales, marketing, account management, and retail network strategy, but the Company delegates certain PBM administrative functions, such as claims processing and prescription fulfillment, to CaremarkPCS Health LLC, which is a subsidiary of CVS Health Corporation, pursuant to a five-year agreement that was set to terminate on December 31, 2024.

Organizational Chart

A simplified organizational listing is presented below. Subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are one hundred percent (100%) owned:

Elevance Health, Inc. (IN)

- Carelon Holdings, Inc. (IN)
 - Carelon Behavioral Health Holdings, LLC (DE)
 - **CarelonRx, Inc. (IN)**
 - CarelonRx Pharmacy, Inc. (DE)
 - Carelon Insights, Inc. (IN)

PBM OPERATIONS, FINDINGS, AND RECOMMENDATIONS

A statutory audit was conducted of the Company as of December 31, 2023, addressing the following areas:

Dispensing Fees

Tenn. Comp. R. & Regs. 0780-01-95-.10 requires that a PBM pay an enhanced dispensing fee to pharmacies that submit a certification to the PBM that it qualifies as a low-volume pharmacy as defined by Tenn. Code Ann. § 56-7-3206(f).

Testwork was completed to determine whether qualifying low-volume pharmacies were timely paid an enhanced dispensing fee as set forth in Tenn. Code Ann. § 56-7-3206(f) and Tenn. Comp. R. & Regs. 0780-01-95-.10.

PBM policies and procedures related to low-volume pharmacy claim reimbursements were reviewed to determine compliance with Tenn. Code Ann. § 56-7-3206(f) and Tenn. Comp. R. & Regs. 0780-01-95-.10.

Finding #1

It was determined that the Company was not in compliance with Tenn. Code Ann. § 56-7-3206(f) and Tenn. Comp. R. & Regs. 0780-01-95-.10.

Pursuant to Tenn. Code Ann. § 56-7-3206(f), a PBM shall pay a professional dispensing fee at a rate that is not less than the amount paid by the TennCare program to a pharmacy, if:

- (1) The pharmacy dispenses a prescription drug or device pursuant to an agreement with the pharmacy benefits manager or a covered entity; and
- (2) The pharmacy's annual prescription volume is at a level that, if the pharmacy were a TennCare-participating ambulatory pharmacy, would qualify the pharmacy for the enhanced amount of professional dispensing fee for a low-volume pharmacy under the operative version of the Division of TennCare Pharmacy Provider Manual, or successor manual.

The Company failed to pay an enhanced professional dispensing fee to qualifying low-volume pharmacies, as required by Tenn. Code Ann. § 56-7-3206(f), for 116 claims during 2023. According to information provided by the Company, the claims were processed through its vendor's Plan Enhancement for Non-Covered Drug Discount ("PENCD") program, a discount card program to provide members discounts on non-covered medications and integrated into the plan's pharmacy benefit without undermining the client's chosen formulary strategy. As a result, the Company claimed that it was not required to reimburse the pharmacy for an enhanced dispensing fee for these claims.

Tenn. Code Ann. Title 56, Chapter 7, Parts 31 and 32, apply to certain transactions when a PBM utilizes a discount plan as part of its processing of a claim for a pharmacy benefit under an insurance plan. Because the transaction constitutes

the administration of pharmacy benefits on behalf of a Covered Entity, as defined by Tenn. Code Ann. § 56-7-3102(1), the transaction is subject to the requirements under Tenn. Code Ann. Title 56, Chapter 7, Parts 31 and 32 regarding claims adjudicated by PBMs. Therefore, the Company is subject to Tenn. Code Ann. § 56-7-3206(f) and is required to pay an enhanced professional dispensing fee to qualifying low-volume pharmacies for these transactions.

Recommendation: It is recommended that the Company review all paid pharmacy claims submitted by low-volume pharmacies that were processed by a prescription discount plan as part of its processing of a claim for a pharmacy benefit under an insurance plan to ensure compliance with Tenn. Code Ann. § 56-7-3206(f).

Finding #2

It was determined that the Company was not in compliance with Tenn. Code Ann. § 56-8-105.

The Company did not pay an enhanced professional dispensing fee to qualifying low-volume pharmacies who dispensed a prescription drug or device at point of sale as is customary for the payment of professional dispensing fees in 7,492 claims during 2023.

For 7,492 claims processed between January 1, 2023 and December 31, 2023, the enhanced professional dispensing fee was not paid to qualifying low-volume pharmacies until after the audit of the Company was called in May 2024, with most payments being made on or after December 1, 2024.

The high percentage of payments that were issued well after the claim was processed demonstrates the Company engaged in unfair claims practices in violation of Tenn. Code Ann. § 56-8-105 by failing to adopt and implement reasonable standards for the settlement of enhanced professional dispensing fees owed under its policies, and by not attempting in good faith to effectuate prompt, fair, and equitable settlement of enhanced professional dispensing fees in which liability has become known.

Recommendation: It is recommended that the Company review all paid pharmacy claims submitted by low-volume pharmacies and adopt and implement reasonable standards, (i.e., policies and procedures) for the settlement of enhanced professional dispensing fees to ensure compliance with Tenn. Code Ann. § 56-8-105.

Fair Reimbursement

Testwork was completed to determine whether the PBM engaged in a pattern or practice of reimbursing pharmacies or pharmacists in this state less than the amount that the PBM reimburses a PBM affiliate for providing the same drug or dispensed product or service as set forth in Tenn. Code Ann. § 56-7-3118(d).

No instances of noncompliance by the Company with Tenn. Code Ann. § 56-7-3118(d) were noted.

Spread Pricing

Tests were performed to determine whether the PBM charged a covered entity an amount greater than the reimbursement paid by the PBM to a contracted pharmacy for prescription drugs or devices as prohibited by Tenn. Code Ann. § 56-7-3206(b).

After review of the data provided by the Company, it is inconclusive whether there was a violation of Tenn. Code Ann. § 56-7-3206(b). See Observation #1 for additional relevant information.

Initial Appeals

Testwork was performed to determine whether the PBM timely and properly adjudicated initial appeals; if necessary, raised the appealing pharmacy reimbursement for the item that was the subject of the appeal and allowed the pharmacy to reverse and bill the claim; and, if necessary, applied the findings from the appeal as to the rate of reimbursement and actual cost for the particular drug or medical product or device to other similarly situated pharmacies as required by Tenn. Code Ann. § 56-7-3206 and Tenn. Comp. R. & Regs. 0780-01-95-.03 through -.05.

No instances of noncompliance by the Company with Tenn. Code Ann. § 56-7-3206 and Tenn. Comp. R. & Regs. 0780-01-95-.03 through -.05 were noted

External Appeals

Tenn. Code Ann. § 56-7-3206(g)(2) required the Department to institute an external appeals process for any appeal denied by a PBM.

Tenn. Comp. R. & Regs. 0780-01-95-.06 established the requirements for the external appeals process to be followed by the Department, appealing pharmacies, and PBMs.

Testwork was completed to determine whether, in the event of a successful external appeal, the PBM timely and properly raised the appealing pharmacy reimbursement for the item that was the subject of the appeal and, if necessary, applied the findings from the appeal as to the rate of reimbursement for the drug or medical product or device at

issue to other similarly situated pharmacies as required by Tenn. Comp. R. & Regs. 0780-01-95-.06.

No instances of noncompliance by the Company with Tenn. Comp. R. & Regs. 0780-01-95-.06 were noted

Audits of Pharmacies

Testwork was completed to determine if the PBM complied with standards for timing and notice concerning pharmacy audits, standards for the conduct of the audits, and the proper determination of and handling of recoupments as a result of a pharmacy audit found in Tenn. Code Ann. § 56-7-3103 and Tenn. Comp. R. & Regs. 0780-01-95-.09.

No instances of noncompliance by the Company with Tenn. Code Ann. § 56-7-3103 and Tenn. Comp. R. & Regs. 0780-01-95-.09 were noted.

OBSERVATIONS

The following list presents a summary of observations noted by the auditors:

Observation #1

Paid pharmacy claims were reviewed to determine if the Company charged a covered entity an amount greater than the reimbursement paid by the Company to a contracted pharmacy for prescription drugs or devices as prohibited by Tenn. Code Ann. § 56-7-3206(b). Auditors were able to determine that a spread pricing model had been used based on summary data provided by the Company for claims adjudicated during the period of January 1, 2023 through December 31, 2023. These claims were processed by the Company using a price and reimbursement model where the covered entity was charged an amount greater than the reimbursement paid by the Company to a contracted pharmacy for prescription drugs or devices. In total, the Company charged covered entities \$8,445,084 in excess of the aggregate amount it reimbursed its contracted pharmacies during 2023. \$7,100,731 of the excess amount billed to covered entities, over the reimbursement to the pharmacies, was retained by its subcontractor, CaremarkPCS Health, LLC. The remaining \$1,344,353 of the excess was the result of the Company charging covered entities additional amounts over the reimbursement to the pharmacies, which it subsequently retained. However, the Auditors acknowledge that Tennessee law did not prohibit the use of a spread pricing model for health care payor contracts executed prior to July 1, 2021. The Auditors were unable to determine if the claims for which a spread pricing model was used were in fact associated with a service agreement that was executed or amended on or after July 1, 2021. The Company is reminded that any contract amended or executed after July 1, 2021, must adhere to the requirements of Tenn. Code Ann. § 56-7-3206(b).

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and guidance from the NAIC Market Regulation Handbook, as deemed appropriate, have been followed in connection with the audit of CarelonRx, Inc.

Respectfully submitted,

Craig Moore

Craig Moore, CFE, CPBS
Examiner-in-Charge
Examination Resources, LLC
Representing the State of Tennessee

Rhonda Bowling-Black, CFE, ARe, MCM
Department Designee
State of Tennessee

CERTIFICATION

The undersigned certifies and says that they have duly executed the attached audit report of CarelonRx, Inc. located in St. Louis, Missouri, dated June 24, 2025, and made as of December 31, 2023, on behalf of the Tennessee Department of Commerce and Insurance. The undersigned further says they are familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of their knowledge, information, and belief.

Craig Moore

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Rhonda Bowling-Black, CFE, ARe, MCM
Department Designee
State of Tennessee