

Insurance Audit Committee  
October 24, 2019

The State, Local Education, and Local Government Insurance Audit Committee met on October 24, 2019 in Conference Room D, North Conference Center, Third Floor, William R. Snodgrass Tennessee Tower, Nashville, TN.

Committee Members attending:

Treasurer David Lillard, Chair

Rob Chance, State Insurance Committee representative

Maryanne Durski, Local Education Insurance Committee representative

Kevin Krushenski, Local Government Insurance Committee representative

Treasurer Lillard called the meeting to order and noted that a quorum was present.

**Agenda Item 1 – Approval of Minutes of May 23, 2019**

Mr. Krushenski made a motion that the minutes of the May 23, 2019 meeting be approved with noted corrections. Ms. Durksi seconded the motion which passed with a unanimous voice vote.

**Agenda Item 2 – Financial Activity Report**

Christa Martin, Director of Financial Management and Program Integrity, Benefits Administration (BA), presented the Financial Activity Report for the period dated July 1, 2019 – August 31, 2019. It was noted that the report was based on estimated beginning net assets since the 2019 Comprehensive Annual Financial Report (CAFR) was not final. Ms. Martin reviewed the net revenue and expenditures for each plan noting that the Committees had approved a plan to spend down the excess reserves. In response to member inquiry, Ms. Martin noted that the plans were operating within the three year spend down plan and that the financials are provided on a rolling three year plan. Mr. Krushenski asked about the \$2.3 million transfer from the general fund to the Local Education Plan. Ms. Martin explained the transfer occurs monthly to pay the state share of retiree coverage. Members were advised of a \$76 million transfer that would be made to the Other Post Employment Benefits (OPEB) Trust Fund that was not reflected on the report.

**Agenda Item 3 – Review of Pharmacy Benefit Manager (PBM) Audit Reports**

Dr. Kevin DeStefino, Vice President, Senior Pharmacy Consultant, Aon Consulting presented four PBM Audit which are summarized below:

Financial Guarantees – Audit for 100% of paid claims paid from January 1, 2017 through December 31, 2017 to evaluate CVS' accuracy of adjudication processes for the State's financial

guarantees and to confirm that claims processing for the financial plan provisions were set up correctly. The Aon audit noted that CVS met the majority of the contracted discount and dispensing fee guarantees and specifically noted exceptions which resulted in a payment of over \$1.8 million by CVS to the State in May 2018. In CVS' response to the audit, they provided additional information of overpayments made to the State of just under \$90,000; CVS will discuss reimbursement of this overpayment from the State.

Rebates Audit – Audit of rebate contracts between CVS and drug manufacturers to ensure that 100% of eligible rebate utilization was accurately invoiced on behalf of the State. The audit identified claims that were omitted during rebate invoicing and claims that were invoiced at an incorrect rate for one drug for one manufacturer. The auditor calculations determined that CVS owed the State over \$69,000 for these findings.

Retail Pharmacy Pricing Comparison – Audit to determine if Caremark was paying their CVS division a higher reimbursement rate than they were paying other chains or independent pharmacies. Aon assessed the pricing of claims for the top 25 drugs segmented into four different subgroups: retail brand claims, retail generic claims, retail 90 Brand claims and Retail 90 Generic claims. The audit determined that CVS is fairly paying all their retail network pharmacies at relatively the same reimbursement rate.

Retail Transparency Assessment - This audit evaluates CVS' accuracy of adjudication processes for the State's financial guarantees related to Retail Transparency and invoiced amounts billed to the State. For this audit, Aon reviewed a sample of 220 randomly selected claims per month, split between generic and brand, during the scope period, for a total of 2,640 samples. The audit determined the CVS met their obligation to bill the State for brand and generic drug products under the State's Pass-Through Transparent pricing terms.

In response to member questions, Dr. DeStefino stated that he felt the sample size used in the Retail Pharmacy Pricing and Retail Transparency audits were statistically appropriate; however at the request of the Committee, he stated that he would review the options to expand the sample size.

#### **Agenda Item 4 – Review of Pharmacy Benefit Manager Audit and Monitoring Report**

Ms. Martin advised members that pursuant to Public Act 408 of the 108<sup>th</sup> General Assembly, BA is required to monitor and cause to be audited the state sponsored public sector health plans' PBM's compliance with the contract with the State. Ms. Martin noted that several items of the Audit and Monitoring Report are handled by Aon Consulting. For the Eligibility of Beneficiaries and Pharmacy Claims Paid portion, BA's Program Integrity Group performed a review to determine whether the members for whom claims were paid were eligible for the benefits. The dates for the review were April 2018 – March 2019 and it was determined that there were no material, consistent findings. As it relates to Consideration of Other Industry Related Risks, BA identified a potential industry risk of abuse of certain drug classes used to treat narcolepsy. The

State Plan required a prior authorization from the PBM to fill prescriptions to treat narcolepsy and also for any drug compound with a cost of over \$300.

#### **Agenda Item 5 – Review of Calendar Year 2018 Program Integrity Monitoring Activities**

Ms. Martin stated that BA, at the Treasurer's request, had sought advice from the Department of Commerce and Insurance on recommended methodologies for conducting internal review of the third party administrators (TPA) related to program integrity, fraud and abuse. As part of this effort, the following reviews are conducted by the Program Integrity Division to ensure that claims are being paid timely, processed accurately and provider complaints are handled appropriately:

- Claims Payment Turnaround
- Carrier Duplicate Claims
- Denied Claims Review
- Pended Claims Review
- Review of Carrier Internal Provider Complaint or Appeal Log

#### **Agenda Item 6 – Updates**

##### OPEB Census Engagement

The Census Engagement has been completed. There was one repeat finding; however, it was not the same issue that was previously noted.

##### OPEB Trust Engagement

The trust engagement is in process with State Audit conducting testing on claims information for retirees.

##### FA Performance Audit

BA has received the draft report which contained no findings or observations.

##### CAFR Related Audits

The CAFR is on-going and is scheduled to be completed by the end of 2019.

There being no additional business of the Insurance Audit Committee, the meeting was adjourned at 11:05 am.

Respectfully Submitted,



Laurie S. Lee  
Executive Director