



US OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

**AUDIT OF THE
NATIONAL ASSOCIATION OF LETTER
CARRIERS' PHARMACY OPERATIONS
AS ADMINISTERED BY CAREMARK, INC.
NORTHBROOK, ILLINOIS
2003 – 2005**

Report No. 1H-01-00-07-014

Date: 03/17/2009

--CAUTION--

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

Federal Employees Health Benefits Program
Pharmacy Drug Program
Contract CS 1067
National Association of Letter Carriers
Plan Code 32

Caremark, Inc.
Northbrook, Illinois

REPORT NO. 1H-01-00-07-014

DATE: 03/17/2009

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
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Caremark, Inc.
Northbrook, Illinois

REPORT NO. 1H-01-00-07-014

DATE: 03/17/2009

The Office of the Inspector General has completed a performance audit of the 2003 through 2005 National Association of Letter Carriers (NALC) pharmacy operations as administered by Caremark, Inc. The primary objective of the audit was to determine if Caremark complied with the regulations and requirements contained within its contract with NALC and Contract CS 1067 (between NALC and the Office of Personnel Management). The audit was conducted in Northbrook, Illinois from January 22 through February 2, 2007 and from February 26 through March 23, 2007.

The audit showed that the 2003 through 2005 NALC pharmacy operations were in compliance with the contracts.

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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 2003 through 2005 National Association of Letter Carriers' (NALC) pharmacy operations as administered by Caremark, Inc. (Caremark). The audit field work was conducted at Caremark's offices in Northbrook, Illinois, from January 22 through February 2, 2007 and from February 26 through March 23, 2007. Additional audit work was completed at our Washington, D.C. office.

BACKGROUND

The Federal Employees' Health Benefit 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.

NALC has entered into a Government-wide contract (CS 1067) with the OPM to provide a health benefit plan authorized by the FEHB Act. NALC has contracted directly with Caremark to manage the delivery and financing of prescription drug benefits for NALC health benefit purchasers.

This is our first audit of the NALC pharmacy benefit operations as administered by Caremark.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether Caremark's charges to the FEHBP and services provided to FEHBP members were in accordance with the terms of the contracts. Specifically, our objectives were as follows:

Claim Payments

- To determine whether Caremark complied with contract provisions stated in its contract with NALC relative to benefit payments, and to determine if claims were properly adjudicated.

Processing and Administrative Fees

- To determine whether processing and administrative fees charged to the FEHBP were in compliance with the terms of the contract between Caremark and NALC.
- To identify areas of the contract between Caremark and NALC which require improvement.

Clinical Management Savings

- To determine if costs charged to the FEHBP for Clinical Management Programs were charged in accordance with the terms of the contract between Caremark and NALC.
- To determine if savings amounts reported were properly calculated.

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 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 the NALC Annual Accounting Statements for contract years 2003 through 2005. During this period, Caremark paid approximately \$692 million in prescription drug charges (see Schedule A).

In planning and conducting our audit, we obtained an understanding of Caremark'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 for 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 Caremark'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 Caremark's system of internal controls taken as a whole.

In conducting the audit we relied to varying degrees on computer-generated data provided by Caremark. 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 doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether Caremark had complied with the contract, 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. The results of our tests indicate that, with respect to the items tested, Caremark complied with all provisions of the contract and Federal procurement regulations.

METHODOLOGY

To test Caremark's compliance with the contracts we reviewed the following areas:

For our review of claim payments we selected the following judgmental samples to determine if the claims were properly paid by Caremark (all samples were selected from claims billed from July 1 through December 31, 2005):

- We initially selected a judgmental sample 100 mail order drug claims (totaling \$537,719) by selecting every 10th claim (until we had chosen 100 claims) from a listing sorted from highest to lowest of "client due amount" of \$3,000 or greater. This universe included 1,058 claims totaling \$5,401,133. Caremark informed us that this sample encompassed "specialty" drug claims (specialty drugs are prescription medications that require special handling, administration, or monitoring) only. As a result, we reduced the sample to the top 20 high dollar claims selected (totaling \$212,685).
- We judgmentally selected a sample of 80 mail order claims (totaling \$46,222) by selecting every 10th claim (until we had chosen 80 claims) with a high "client due amount" between \$500 and \$600. This sample was selected from a universe of 2,747 mail order claims totaling \$1,497,980.
- We judgmentally selected the top five retail pharmacies based on the highest total "client due amount" by pharmacy. For each retail pharmacy selected, we judgmentally selected every 10th claim from a listing of "client due amount" sorted from highest to lowest, until we had chosen 30 claims for each pharmacy. Specifically, we selected the following:
 1. 30 CVS claims totaling \$27,552, from a universe of 4,550 claims totaling \$804,219;
 2. 30 Wal-Mart claims totaling \$12,930, from a universe of 314 claims totaling \$134,144;

3. 30 Rite Aid claims totaling \$14,281, from a universe of 405 claims totaling \$169,324;
 4. 30 Eckerd claims totaling \$6,573, from a universe of 349 claims totaling \$73,340;
 5. 30 Kroger claims totaling \$8,055, from a universe of 699 claims totaling \$123,547.
- We judgmentally selected 60 mail order claims (totaling \$37,290) from a universe of 761 claims (totaling \$384,174) with indicators to dispense the drug as written (DAW) to determine if the indicators were valid. We selected every 10th claim (until we had chosen 50 claims) from a listing sorted from highest to lowest of “client due amount” where the DAW code was 1 (DAW specified by physician), and we selected every 10th claim (until we had chosen 10 claims) from a listing sorted from highest to lowest of “client due amount” where the DAW code was 2 (DAW specified by patient).

For our review of the processing and administrative fees, we judgmentally selected the month of December from the years of the audit scope (2003-2005) for review. Specifically, we reviewed the information to determine if the individual fees charged to the FEHBP were correct according to the contract between NALC and Caremark and if the claim counts quoted on the billings were correct.

For our review of the clinical management savings, we judgmentally selected 60 claims (totaling \$107,203) from the 3rd and 4th quarters of 2005 (16,564 claims, totaling \$4,685,128) to determine if the savings calculated by Caremark was correct. Specifically, from each quarter we selected every 10th claim based on the highest (positive savings) “client savings amount” until we had chosen 25 claims and every 5th claim based on the lowest (negative savings) “client savings amount” until we had chosen 5 claims.

The above samples that were selected and reviewed in performing the audit were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole. We used the Contract CS 1067 and the contract between NALC and Caremark to determine if processing and administrative fees charged to the FEHBP were in compliance with the terms of the contract.

III. AUDIT RESULTS

Based on our review of claim payments, processing and administrative fees, and clinical management savings, we found that the NALC pharmacy operations for 2003 through 2005, as administered by Caremark, were administered in accordance with the contracts.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

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AUDIT OF THE
 NATIONAL ASSOCIATION OF LETTER
 CARRIERS' PHARMACY OPERATIONS
 AS ADMINISTERED BY CAREMARK, INC.
 NORTHBROOK, ILLINOIS

CONTRACT CHARGES
 REPORT NUMBER: 1H-01-00-07-014

CONTRACT CHARGES	2003	2004	2005	TOTAL
PHARMACY BENEFIT PAYMENTS	\$211,015,524	\$232,239,643	\$248,364,306	\$691,619,473