DEPARTMENT OF HEALTH & HUMAN SERVICES **Office of Inspector General**

Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

June 25, 2010

Report Number: A-03-09-00020

Ms. Debra Nuckols
Medicare Compliance Officer
Coventry Health Care, Inc.
700 American Avenue, Suite 300
King of Prussia, PA 19406

Dear Ms. Nuckols:

Enclosed is the U.S. Department of Health & Human Services, Office of Inspector General (OIG), final report entitled *Review of Coventry Health Care, Inc.'s 2007 Prescription Drug Event Data Elements Related To Yearend Reconciliation.* We will forward a copy of this report to the HHS action official noted below.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-03-09-00020 in all correspondence.

Sincerely,

/Stephen Virbitsky/
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Timothy B. Hill, Deputy Director
Centers for Drug and Health Plan Choice
Centers for Medicare & Medicaid Services
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Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF COVENTRY HEALTH CARE, INC.'S 2007 PRESCRIPTION DRUG EVENT DATA ELEMENTS RELATED TO YEAREND RECONCILIATION

Daniel R. Levinson
Inspector General

June 2010
A-03-09-00020

Office of Inspector General

http://oig.hhs.gov

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

INTRODUCTION

BACKGROUND

Medicare Part D

Title I of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) amended Title XVIII of the Social Security Act (the Act) by establishing the Medicare Part D prescription drug program. Under Part D, which began January 1, 2006, individuals entitled to benefits under Part A or enrolled in Part B may obtain drug coverage. The Centers for Medicare & Medicaid Services (CMS) administers the Medicare Part D program.

CMS contracts with private entities called Part D sponsors that act as payers and insurers for prescription drug benefits under Part D. Part D sponsors may contract with a pharmacy benefits manager (PBM) to manage or administer the drug benefit on the sponsors' behalf. PBM responsibilities vary, but include services such as processing and paying prescription drug claims, contracting with pharmacies, and negotiating rebates with drug manufacturers.

Part D sponsors, or their PBMs, contract with retail pharmacies and provide reimbursement for prescription drugs dispensed to Part D beneficiaries. The sponsors pay pharmacies based on detailed claims data supplied by the pharmacy at the point of sale.

Payment, Reconciliation, and Prescription Drug Event Records

Sections 1860D-14 and 15 of the Act provide that CMS pay plans for Part D benefits through subsidies and risk sharing. CMS pays the subsidies prospectively throughout the plan year. Pursuant to 42 CFR § 423.343, after the close of the plan year, CMS is responsible for reconciling the prospective payments to the sponsor's actual allowable costs to calculate final payments and risk sharing amounts. CMS determines the plan's actual allowable costs using certain data elements submitted by sponsors on Prescription Drug Event (PDE) records.

Sections 1860D-15(c) (1)(C) and (d)(2) of the MMA require sponsors to submit data and information necessary for CMS to carry out payment provisions. For every prescription filled, the Part D sponsor or its PBM prepares and submits a PDE record to CMS. The PDE record contains prescription drug cost and payment data that enables CMS to make payment to plans and otherwise administer the Part D benefit. Specifically, CMS uses the following PDE cost and payment fields in its year end reconciliation: gross drug cost above out-of-pocket threshold, gross drug cost below out-of-pocket threshold, low-income cost-sharing subsidy, and covered D plan paid amount (the four PDE data elements). The sponsor, or its PBM, calculates the four data elements from the point-of-sale claims data submitted by the pharmacy using instructions provided by CMS.

Coventry Health Care, Inc., and Caremark Rx, LLC

As a Part D sponsor, Coventry Health Care, Inc. (Coventry), provided prescription drug coverage to approximately 1 million beneficiaries and submitted over 34 million PDE records to CMS for plan year 2007. For plan year 2007, Coventry contracted with Caremark Rx, LLC (Caremark), to provide PBM services, including the creation of PDE records.

As Coventry's PBM, Caremark processed prescription claims from pharmacies for each dispensing event. Caremark used its claims software to process prescriptions at the point of sale and to calculate the four PDE data elements. Caremark used these data elements, as well as other Part D data, to create the PDE record. Coventry received PDE records from Caremark on a bi-weekly basis. Coventry validated the PDE records by verifying certain PDE calculations and conducting other quality assurance edits. Coventry then submitted the PDE records to CMS.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Coventry's Part D PDE data elements used in reconciliation were calculated accurately and in accordance with Federal requirements and guidance for plan year 2007.

Scope

Our audit covered the period of January 1 through December 31, 2007. We reviewed PDE records that Coventry submitted for 16 prescription drug plans. We reviewed only those internal controls that pertained to the four PDE data elements used in reconciliation. We relied on Caremark to provide the pharmacy claim data as submitted at the point of sale.

We performed our field work at Coventry's offices in Harrisburg, Pennsylvania, and Glen Allen, Virginia, in July and August 2009. We also performed field work at Caremark's offices in Scottsdale, Arizona, in November 2009.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and CMS guidance;
- interviewed CMS officials about the Federal requirements and guidance related to PDE calculations;
- obtained from CMS PDE records for dates of service January 1, 2007, through December 31, 2007, that CMS processed for Coventry through May 12, 2009;
- selected and analyzed a judgmental sample of 30 PDE records;

- interviewed Coventry officials to gain an understanding of Coventry's PDE validation and submission processes;

- obtained and analyzed detailed claim information from Coventry for our sample items, including written prescriptions;

- interviewed Caremark's officials to gain an understanding of the pharmacy claims process; PDE calculation, creation, and validation processes; and related internal controls;

- obtained from Caremark pharmacy claims data including, PDE data element calculations;

- verified the accuracy of the four PDE data elements as calculated by Caremark;

- reviewed Coventry's policies and procedures related to validating and submitting PDE data to CMS; and

- reviewed Caremark's policies and procedures related to PDE calculation, creation, and validation for the data elements under review.

We conducted this 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

Coventry calculated the four PDE data elements used in reconciliation accurately and in accordance with Federal requirements and guidance. Additionally, both Coventry's and Caremark's internal controls provided reasonable assurance that the four PDE data elements were adequately reviewed for basic quality assurance and accuracy. We are not submitting recommendations to Coventry.