Report in Brief
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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

The District of Columbia Has Taken Significant Steps To Ensure Accountability Over Amounts Managed Care Organizations Paid to Pharmacy Benefit Managers

Why OIG Did This Audit

Spread pricing occurs when a managed care organization (MCO) contracts with a pharmacy benefit manager (PBM) to manage its prescription drug benefits, and the PBM keeps a portion of the amount the MCO paid to it for prescription drugs instead of passing the full payment on to the pharmacy. Several States have conducted audits of PBM spread pricing practices due to concerns about the transparency and appropriateness of spread pricing in the Medicaid program. Other States, including New York, Texas, and Virginia, have enacted or drafted legislation to increase transparency and change the contracting process with PBMs.

Our objective was to determine whether the District of Columbia provided oversight of its MCOs to ensure adequate accountability over amounts paid to PBMs for prescription benefits.

How OIG Did This Audit

We reviewed the contracts between the District and its five MCOs and the seven contracts between those MCOs and PBMs from October 1, 2016, through September 30, 2019 (audit period). We also reviewed the five MCOs' claims for prescription drugs dispensed during the audit period and obtained the amounts the PBMs reimbursed pharmacies for the prescription drugs dispensed during the audit period.

What OIG Found

The District provided some oversight of its MCOs with the intent of ensuring adequate accountability over amounts paid for prescription benefits to its PBMs. This oversight consisted of guidance requiring MCOs to report spread pricing. However, the amounts reported were aggregated with other amounts and as a result did not provide transparency over the amount of the funds that was attributable to spread pricing. We found that PBMs kept $23.3 million in spread pricing during our audit period. Spread pricing may increase the cost of Medicaid prescriptions for both the MCO and the Medicaid program and, if not correctly accounted for, inflate the cost of the drugs. Limiting spread pricing may decrease Federal and State spending through lower payments to MCOs.

What OIG Recommends and District Comments

We recommend that the District develop policies and procedures for validating MCO, PBM, and pharmacy transactions on a periodic basis to ensure transparency of costs associated with the prescription drug program.

In written comments on our draft report, the District concurred with our recommendation and asked for clarification and guidance regarding the amounts or percentages that are deemed appropriate for PBMs to retain under the practice of spread pricing. The District also asked for clarification regarding whether it should require its contracted MCOs to make a separate payment to its PBMs for administrative costs and fees.

We appreciate the District's desire to improve its PBM oversight, an important topic receiving much congressional interest. After receiving its comments, we met with the District to discuss some observations that we noted during the audit and encouraged the District to contact the Centers for Medicare & Medicaid Services for clarification and guidance and work with other State agencies and its counsel to determine best practices. In addition, while we did not specifically recommend that the District disaggregate information in the medical loss ratio report, we look forward to the steps the District takes to ensure transparency of costs associated with the prescription drug program.

The full report can be found at https://oig.hhs.gov/oas/reports/region3/32000200.asp.