



Department of Legislative Services
Office of Legislative Audits

**Department of Budget and
Management – Office of Personnel
Services and Benefits (OPSB)**

Report dated February 19, 2009



Department of Legislative Services Office of Legislative Audits

Audit Overview

- OPSB directs the development of State personnel policies, administers the health care benefit programs for State employees and retirees, and is responsible for other personnel-related programs.
- Health benefit payments have increased from \$890 million to \$993 million from FY 05 to FY 08.
- The State pays claims for participants enrolled in health care plans administered by PPO's, certain services rendered by point of service (POS) providers, prescription drug and mental health plans. For all other POS services and services provided by HMO's, the State is fully insured and pays a premium (such as a capitation fee) for medical costs.
- The report included 14 findings, 5 of which were repeated from the preceding audit report.



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Key Audit Issues

- OPSB did not adequately administer the contract with its former pharmacy benefit manager (PBM). Certain discounts and rebates totaling as much as \$10.8 million were not received by the State.
 - OPSB had not taken actions to determine whether its former PBM, which had engaged in “drug switching” activities for other insurance plans, had conducted such activities under the State’s prescription drug plan, thus leading to higher and unnecessary costs.
 - OPSB had not pursued recovery from one of its third-party plan administrators of potentially fraudulent health care claim payments totaling \$534,000, nor resolved certain claim payments with various administrators totaling \$3.7 million that OPSB subsequently identified as potentially ineligible.
 - OPSB did not receive timely certain final reports prepared by a private firm hired by OPSB to audit the State’s health plan benefit administrators.
 - Certain IT controls were not sufficient.
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Inadequate Oversight of Prescription Drug Program

- OPSB did not ensure it received all contractual drug discounts from its former pharmacy benefit manager. (Finding 1)
 - OPSB's audit firm issued a draft report in March 2008 which stated that for Plan Years (PY) 2005 and 2006, the State only received discounts from the average wholesale drug prices of 46.7% and 48.7%, respectively, instead of the required discounts of 56% and 50%.
 - Although these differences represented drug overpayments, the firm did not calculate or quantify the overpayment amounts in its report. After OLA brought this matter to OPSB's attention, the firm advised OPSB that the State made overpayments totaling as much as \$10.1 million.

OPSB advised that it will not attempt recovery until the firm issues its final report. A similar finding was included in our prior report.



Oversight of Prescription Drug Program (cont'd)

- OPSB's former PBM did not provide the State with required drug manufacturer rebates totaling approximately \$700,000 for PY 2006. (Finding 2)

A report from OPSB's contract auditor incorrectly concluded that the State received all rebates for PY 2006. OLA review of the contract audit report found that the State received rebates for mail order and retail prescriptions, totaling \$6.6 million, but not an additional \$700,000 representing the guaranteed minimum rebate for each prescription filled.

OPSB and its contract audit firm agreed with the OLA analysis and in September 2008, OPSB billed the prior PBM \$700,000, which had not yet been collected as of December 1, 2008.



Oversight of Prescription Drug Program (cont'd)

- OPSB had not taken action to determine whether its former PBM had engaged in drug switching activities with respect to Maryland's prescription drug plan. (Finding 3)

Specifically, OPSB had not pursued this issue even though legal action was taken by Maryland's Attorney General (AG) in this area. AG's from Maryland and other states reached a legal settlement with the PBM for allegedly engaging in such activities with respect to other insurance plans. The PBM was required to pay \$38.5 million to the participating jurisdictions (including \$2.4 million to Maryland).

It was alleged that drug switching increased patient co-pays and prescription claim costs to health benefit plans by encouraging physicians to change patients' prescriptions.



Inadequate Monitoring of Claim Payments

- OPSB did not adequately pursue recovery for claims paid totaling \$534,000 related to apparent fraudulent medical claims submitted by certain State employees. (Finding 6)

In August 2007, OPSB's third party administrator (TPA) acknowledged that its claims processing system failed to flag these claims for investigation prior to payment.

An investigative firm hired by the TPA concluded that 21 claims were paid, totaling \$534,000, related to claims submitted by four State employees during periods of travel outside of the USA from January 2000 through December 2005.

OPSB terminated health care benefits for the three individuals still employed, but it did not pursue recovery from the TPA until OLA brought this matter to OPSB's attention nor verify the TPA corrected the related claim processing problems.



Inadequate Monitoring of Claimant Eligibility

- OPSB did not adequately follow up and resolve certain claim payments identified as potentially ineligible. (Finding 7)
 - During its automated post claim review process, OPSB identified \$146 million in potentially ineligible claim payments during PYs 2005 through 2008. OPSB reviewed \$46.3 million of such claims, without concluding as to the eligibility of \$3.7 million (8%). From that 8%, OLA reviewed claims totaling \$883,000 and found 47 paid claims totaling \$131,000 for ineligible participants.
 - No reviews were conducted for the remaining \$100 million. In this regard, potentially ineligible claims reviewed by OPSB were not selected based on materiality, which could improve effectiveness and efficiency.

Similar conditions have been commented on in reports dating back to 1997.



Audits of Health Plan Administrators

- OPSB did not receive timely and complete audit reports related to the State's health benefit plan administrators. (Finding 8) For example,
 - As of June 30, 2008, OPSB had not received final audit reports for any of the State's 13 health benefit plans applicable to the years ended June 30, 2005 and 2006 which were due to OPSB no later than January 31, 2008.
 - Draft audit reports contained various errors and omissions. In one report, the auditor had not calculated, and did not disclose, significant overpayments made by OPSB's pharmacy benefits manager, as identified in Finding 1.
- OPSB did not adequately monitor the qualifications of personnel assigned to the audits and, on several occasions the audit firm replaced, without OPSB's approval, certain personnel (including the Audit Manager) with lesser-qualified personnel. (Finding 9)



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IT Security Issues /Inadequate Cash Controls

- Controls over key OPSB information systems were not sufficient to protect sensitive employee and systems' information.
 - For the Benefits Administration System - used to support health care benefits provided to over 110,000 employees, retirees, etc. – certain actions were not taken to monitor security events, such as failed access attempts. (Finding 10)
 - Certain personnel data and user authentication information were transmitted by the OPSB's web-enabled personnel transaction application (PTA) in an unencrypted format, and operating system passwords and account controls for the PTA server did not meet the minimum State requirements. (Finding 11).
 - Cash receipts, which totaled \$50.8 million in FY 2008, were not adequately controlled. For example, certain duties were not separated and deposits were not independently verified. (Finding 13)
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Conclusion – OPSB should...

- Improve monitoring of the PBM contract to ensure that all contractually required discounts and rebates are obtained timely. Determine whether the former PBM engaged in drug switching activities.
- Establish appropriate procedures to ensure that claim payments are made only for eligible plan participants and costs, and take action to recover overpayments.
- Ensure that audits of the State's health benefit plan administrators are completed and the results are reported in accordance with contract terms.
- Establish appropriate controls over its automated information systems to safeguard operations and sensitive data.
- Ensure that adequate procedures and controls are in place over cash receipts.