



**Department of Legislative Services
Office of Legislative Audits**

**Department of Budget and
Management**

**Office of Personnel Services and
Benefits (OPSB)**

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Presentation to Joint Audit Committee

Peter J. Klemans, CPA
Raymond G. Burton, CPA

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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 2005 to FY 2008.
 - The State directly 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. These plans are self-funded; the State accepts the risk for all medical costs.
 - 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 were not received by the State.
 - OPSB had not determined 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.
 - OPSB had not pursued recovery of potentially fraudulent health care claim payments totaling \$534,000, nor resolved certain claim payments with various administrators totaling \$3.7 million that it had 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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Oversight of Prescription Drug Program

OPSB did not ensure it received all contractual drug discounts from its former PBM. (Finding 1)

- OPSB's audit firm issued a draft audit report indicated that for Plan Years (PY) 05 and 06, the State received smaller discounts than required. (e.g., in PY 05, 46.7% of the average wholesale price instead of 56%).
- Resultant overpayments were not calculated or quantified in the report. After OLA brought this matter to OPSB's attention, the firm initially advised OPSB that the State made overpayments totaling as much as \$10.1 million.
- Subsequent to our report issuance, the firm issued its final report and reduced the calculated overpayment amount to \$2.9 million. OPSB advised OLA that it would seek recovery of that reduced amount.
- 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 of approximately \$700,000 for PY 06. (Finding 2)

- The contract audit report for PY's 05 and 06 concluded that the State received all rebates. However, a PY 06 contract modification that provided a guaranteed minimum rebate for each prescription filled was not identified.
- OLA's review of the contract audit report found that for PY 06 the State received rebates totaling \$6.6 million; however, an additional \$700,000 representing the guaranteed minimum rebate was due from the prior PBM.
- 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)

- AG's from Maryland and other states reached a legal settlement with the former PBM for allegedly engaging in such activities with respect to other insurance plans (i.e., the State's prescription drug plan was excluded from the scope of the inter-jurisdictional review).
- 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.



Monitoring of Claim Payments

OPSB did not adequately pursue recovery for 21 claims paid totaling \$534,000 related to apparent fraudulent medical claims submitted by four State employees.
(Finding 6)

- OPSB's third party administrator (TPA) acknowledged that its claims processing system failed to flag these claims (relating to periods of travel outside of the USA from 1/00 through 12/05) for investigation prior to payment, as required.
 - A firm hired by the TPA conducted on-site visits to the facilities where the services were claimed to have been provided; however, the facilities could not provide any verifiable medical records to support any of the claims.
 - Health care benefits were terminated for the employees, but recovery was not pursued from the TPA until OLA brought this matter to OPSB's attention. OPSB had not verified that the TPA corrected the related claim processing problems.
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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 05 through 08.
 - OPSB reviewed \$46.3 million of these claims, without concluding as to the eligibility of \$3.7 million (8%).
 - From those claims (i.e., 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.
 - Similar conditions have been commented on in reports dating back to 1997.
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Audits of Health Plan Administrators

- OPSB did not receive timely, complete audit reports related to the health benefit plan administrators. (Finding 8) For example,
 - As of June 30, 2008, OPSB had not received final audit reports (that were due by 1/31/08) for any of the State's 13 health benefit plans applicable to the PYs ended June 30, 2005 and 2006.
 - Draft audit reports contained various errors and omissions. For example, 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. On several occasions the auditor replaced, without OPSB's approval, certain personnel (including the Audit Manager) with lesser-qualified personnel. (Finding 9)



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IT Security Issues /Cash Receipts 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 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 08, 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 needs to:

- Improve PBM contract monitoring to ensure that all required discounts and rebates are obtained timely.
- Determine whether the former PBM engaged in drug switching activities.
- Establish 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.