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Rebates...The “How-To's” of Auditing

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Rebates are a fact of life for most businesses. Volume purchasing contracts in most industries commonly contain some rebate, free merchandise, coupons, or discounts to offset the cost of purchasing large quantities of goods. Drug purchasing by pharmacies is no different, nor claim administrators like PBMs, nor are plan sponsors who pay for drugs for pharmacy benefits.

For plan sponsors, rebates provide an offset to pharmacy benefit costs. They may even cover the administrative expenses for a claim administrator (e.g., PBM, PBA, TPA, health plan). Rebate payments are based on the list of rebatable drugs on a formulary or covered by a benefit. They are often affected by formulary coverage, preferred vs. non-preferred status, rank in copay tier, and/or market share within the respective therapeutic categories covered.

Rebate contracts between plan sponsors and claim administrators vary. They may be contracted to provide a guaranteed flat rate per branded claim, rebatable drug claim, or less frequently all claims. Contracts may also be set at a percentage of total rebates minus some administrative fee; or they may have elements of both guarantees per claim as well as percentages. The contract guarantees lead to the challenge for auditors to determine and verify the rebate payments.

There has been much debate over the last few years about the transparency of rebate payments from claims administrators to plan sponsors. The transparency argument is based on the concern that all rebates due to a plan sponsor have not been collected, and that some portion of the rebate payments is held by the claim administrator in violation of the contract. Further concerns have been raised about the payments by pharmaceutical manufacturers to claim administrators and whether they are due to the plan sponsor or to the claim administrator. The answer to this question is based on the contract language and the understanding between the parties.

From an audit perspective, the rebate audit flow must follow the incurred service for a covered beneficiary through to the payment of rebates. The accuracy of the contract between the plan sponsor and the claim administrator is dependent on at least two cash flows: *cash outflow* for claims paid by the plan sponsor to pharmacies, and *cash inflow* to the plan sponsor for rebates due from pharmaceutical manufacturers (“PhRMA”). Audit methods should focus on the accuracy of payments from PhRMA to the claim administrator and subsequently to the plan sponsor. Audit plans should be sensitive to the complexity of contracts, but not driven by them. The complete audit trail must cover the entire spectrum of claims earning rebates to payments. The emphasis is on rebates *earned* over those collected. The complexity of the contracts between multiple pharmaceutical manufacturers and the claim administrator provides rationale for an audit, as well as an audit of claim administrator procedures to financially validate or “true up” estimates and correct any payment errors. There should be a direct correlation between claim counts and utilization (e.g., market share), and the rebate payment formulae (which should be well defined in the

contract). Finally, but critically, the contract should provide a payment formula that requires a “true-up” for all rebatable drug payments each quarter.

The following is a sample audit plan on behalf (client name) for earned-to-paid rebates for the time period of (dates from and through). The basis for the audit is the incurred service, or claim. The focus on the incurred claim requires that all paid and rejected claims are tested for the logic applied to the adjudication of the claim. The auditors focus on the audit trail for a rebate claim from “start-to-finish”.

Prior to the rebate onsite audit, the following should be required from the PBM:

- ❑ (PBM's) process flow chart for Rebate Programs and the accounting for rebates.
- ❑ Responsible departments and contacts for each step delineated in the process chart
- ❑ List of rebatable NDC by quarter, or payment period.
- ❑ All applicable Formularies (PBM) used during this period.
- ❑ Any communications by (PBM) to (Client) during the audit time frame (pursuant to appropriate sections of the contract).

The following is a summary of a sample rebate audit plan. This plan is presented to ensure that the PBM is prepared for the site visit and to limit the resources and time spent on behalf of the (Client).

1. The auditors will complete an analysis of all rebatable claims by NDC by quarter, or payment period for these dates (itemize dates), and if necessary, additional quarters to validate payment for all earned claims.
2. The auditors will test claim adjudication for all rebatable claims including paid, denied, COB, etc.
3. All non-rebatable claims will be filtered to remove them from rebate contention
4. Calculate earned rebate quantities by NDC by quarter, or payment period.
5. Compare earned rebate file to file submitted to PhRMA
 - a. Review master screen setup for rebates
 - b. Review detail report for all screens for claim processing logic applied
 - c. Review all accruals per month or quarter for estimated rebate calculations.
 - d. Review monthly or quarterly reconciliation, by manufacturer, of actual rebates received versus the estimated rebates.
6. Review applicable contracts for values to attribute to each NDC quantity or claim.
7. Compare (PBM) receipts from PhRMA to earned rebate file
 - a. Review detail report that supports total rebate receipts
 - b. Review detail report for unpaid or denied payments
 - c. Review pursuit detail report for unpaid rebates
8. Compare payments to (Client) with PhRMA receipts
 - a. Review all calculations for (Client) payment methodology by quarter. The auditors will need to know how (PBM) can confirm (Client) % of overall book of business, if that is the basis for rebates.
 - b. Listing of all first and second payments, along with settlement payments to (Client), for the timeframe under audit.

The uncertainty of rebate payments should not be a matter of contention if fundamental cash flow principles of accounting are audited. The plethora of problems to solve in healthcare is much more important and pressing than the side issue of rebates. The above plan is offered as a solution for plan sponsors to the rebate payment problem.

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