

# ARLINGTON

## VIRGINIA



# Cigna Pharmaceutical Rebate Internal Audit

Report Date: May 6, 2021

## TABLE OF CONTENTS

<b>Transmittal Letter .....</b>	<b>1</b>
<b>Executive Summary</b>	
Background .....	2
Objective and Approach .....	2
Overall Summary / Highlights .....	2
<b>Summary of Procedures and Results... ..</b>	<b>3</b>
<b>Objectives and Approach... ..</b>	<b>5</b>

# TRANSMITTAL LETTER

May 6, 2021

Ms. Maria Meredith  
Director & CFO, Department of Management and Finance

Arlington County, Virginia  
2100 Clarendon Blvd  
Arlington, VA 22201



**RSM US LLP**

1861 International Drive  
Suite 400  
McLean, VA 22102

O: 321.751.6200

[www.rsmus.com](http://www.rsmus.com)

Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present the summary of results related to the pharmaceutical rebate internal audit. Our report is organized in the following sections:

<b>Executive Summary</b>	This section includes a background summary of pharmaceutical rebates, the scope, objectives and approach to the rebate review process and a summary of the item(s) noted during this review.
<b>Summary of Procedures and Results</b>	This section provides an overview of our rebate review process and procedures performed with respect to the various testing areas of our pharmaceutical rebate sample.
<b>Objectives &amp; Approach</b>	This section summarizes the reconciliation of pharmacy claims data extract files with our pharmaceutical manufacturer rebate sample selection with respect to total “invoiced” and “paid” amounts. The approach and focus are expanded upon in this section as well.

Our review is based on our review of the processes, documents, records and information provided to us by Cigna Health and Life Insurance Company (“Cigna”). This review focused on validating that Cigna is appropriately administering the County’s self-insured health plan(s) and related pharmacy rebate guarantees. We offer no assurances that schemes or fraudulent activities have not been, or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the County and Cigna staff involved in assisting RSM US LLP during the pharmaceutical rebate review process.

Respectfully submitted,

*RSM US LLP*

**RSM US LLP**

## Executive Summary

### Background

The County's contractual agreement with Cigna to administer their annual health plans contains a pharmaceutical manufacturer payment sharing clause. Cigna is required to remit to the County portions of rebates that Cigna collects with respect to utilization of covered drugs under the County's plans pharmacy benefits. Pharmaceutical manufacturers provide rebates to those companies that pay for healthcare, including pharmacy benefit managers ("PBM"). Cigna serves as the County's PBM.

The total of all rebates paid to the County between January 1, 2019 and December 31, 2019 was \$1,930,344.

### Scope

Cigna provided RSM with the following electronic data files containing all relevant and pertinent rebate information for the review period (January 1, 2019 through December 31, 2019): 1) Data file with all claims transactions incurred during the review period using Cigna's Universal Pharmacy File format layout, including reversal records and adjustments; 2) Quarterly rebate reports by pharmaceutical manufacturer; 3) Annual reconciliation report for the review period; 4) For the selected manufacturers, plan year reporting including rebated drugs and associated invoicing; 5) Copy of the plan year formularies; 6) Summary of quarterly rebate payments (amounts and dates) made to the County; and, 7) access to selected manufacturers contracts.

RSM selected the top 5 manufacturers in terms of total rebate dollars received for detailed testing, which represented 53% of all rebate dollars received. For each of the top 5 manufacturers, we tested individual invoices and payments by claim for our scope period. This included all drugs for each of the top 5 manufacturers, 45 drugs in total, to test and validate the administration of the County's pharmacy rebates of the health plans. The claims review process was virtually performed over WebEx with a Cigna "driver" rather than an on-site visit.

### Objectives & Approach

RSM was engaged to provide consulting services related to the pharmaceutical rebates audit for the pharmacy benefit management services provided by Cigna. The purpose was to validate that Cigna is providing appropriate support services over the pharmacy rebate process. This included obtaining reasonable assurance of the overall effectiveness of the controls in place over the processes, including appropriate source data, contract interpretation, calculation of the pharmacy rebates and administrative fees and, finally, disbursement to the County.

RSM conducted the following procedures as part of our approach for the rebate review:

- Manufacturer summary – obtained blinded (i.e., without members' names) manufacturer rebate summary for selection of manufacturers for detailed testing and assessed the completeness of rebates paid to the County including validating the contractual minimum guaranteed amounts were paid, when applicable.
- Supporting claims data – assessed the accuracy and completeness of the claims data invoiced for rebates.
- Manufacturer invoice testing – assessed the accuracy and completeness of the invoice calculations remitted to the manufacturers.
- Invoiced data – agreed invoiced data detail to manufacturer summary.

### Overall Summary / Highlights

Based on our review and related procedures performed on behalf of the County, we conclude that Cigna was complying with the contractual terms related to formulary rebates for the review period of January 1, 2019 through December 31, 2019, including that the County has received all of the guaranteed rebate amounts in a timely manner for the same review period. RSM identified no errors within the rebate information provided for review by Cigna.

Fieldwork was performed March through April 2021.

We would like to thank all Arlington County and Cigna team members who assisted us throughout the rebate review process.

## Summary of Procedures and Results

### Overview

A blinded (names withheld for confidentiality) manufacturer rebates invoiced and paid summary was provided by Cigna for our review for the period January 1, 2019 through December 31, 2019. This summary included 89 manufacturers. For each manufacturer it shows, by quarter, and in total, rebate dollars invoiced and rebate dollars paid to the County. Rebate dollars invoiced represents the amount invoiced to each manufacturer by Cigna. Rebate dollars paid represents the amount received by Cigna and remitted to the County. The total of all rebates invoiced was \$1,909,861 and the total of all rebates paid was \$1,930,344. The following represents the total for the top 5 manufacturers:

<b>Manufacturer</b>	<b>Total Rebates Invoiced 1/1/19 – 12/31/19</b>	<b>Total Rebates Paid for period 1/1/19 – 12/31/19</b>
<b>Manufacturer A</b>	\$ 373,241	\$ 376,357
<b>Manufacturer B</b>	\$ 227,981	\$ 230,291
<b>Manufacturer C</b>	\$ 150,862	\$ 152,340
<b>Manufacturer D</b>	\$ 141,553	\$ 142,922
<b>Manufacturer E</b>	\$ 125,092	\$ 125,807
<b>Total</b>	\$ 1,018,728	\$ 1,027,717

The sum of these top 5 manufacturers represents 53% of the total of all rebates invoiced and all rebates paid for the review period. Differences between total paid amount and total invoiced amount exist as the PBM (Cigna in this case) submits rebate-eligible claims to a manufacturer for their entire book of business rather than each individual plan which it manages. This typically works to the advantage of the individual plans, as the amount of rebates paid by the manufacturer are based on a larger pool of claims. The pharmacy benefit manager then pays rebates to each plan separately based on the individual plan's claims.

## Summary of Procedures and Results (continued)

### Summary of Procedures and Results

#### 1. **Manufacturer summary – obtained blinded manufacturer rebate summary for selection of manufacturers for detailed testing and assessed the completeness of rebates paid to the County for the review period**

From the blinded manufacturer rebate summary provided by Cigna for calendar year 2019, RSM selected the top 5 manufacturers by total rebate dollars paid to the County for further detailed testing. RSM agreed the total amount of receipts paid to the County from Cigna for calendar year 2019 of \$1,930,344 from the manufacturer summary to the total payment receipts received by the County without exception. In addition, RSM verified the rebates earned and shared amount to the minimum guarantees for both the periods of January 1, 2019 through June 30, 2019 and July 1, 2019 through December 31, 2019 to validate that if minimum guarantees were activated, they were paid without exception. RSM verified the brand prescription counts, distribution types (mail or retail) and days supply range (30, 90 or mail not applicable) counts for the minimum guarantee calculations.

RSM found no exceptions as a result of applying these procedures.

#### 2. **Supporting claims data – assessed the accuracy and completeness of the claims data invoiced for rebates**

RSM utilized the data file with all claims transactions incurred during the review period using Cigna's Universal Pharmacy File format layout, including reversal records and adjustments and aggregated the following for the top 5 manufacturers:

- Cost/paid amounts
- Fill date
- Paid date
- Benefit plan
- Product type
- Prescription count
- Network indicator
- Mail/Retail
- Specialty indicator
- Drug Tier

RSM validated individual claim transaction data as follows:

- Control counts and amounts received from Cigna
- Formulary and tier qualification
- Specialty indicator
- Product type
- Benefit plan

RSM noted no exceptions in validating the accuracy and completeness of all top 5 manufacturer claim transactions against control totals, formularies and benefit plans. RSM also tested the validity of claim completeness (appropriate inclusion/exclusion) that were included within the rebates invoiced to the manufacturers in accordance with the contractual agreement.

RSM found no exceptions as a result of applying these procedures.

## Summary of Procedures and Results (continued)

### Summary of Procedures and Results (continued)

#### 3. **Manufacturer invoice testing – assessed the accuracy and completeness of the invoice calculations remitted to the manufacturers**

Cigna has ASO agreements with each manufacturer which define applicable manufacturer rebates. Each ASO agreement includes applicable general rebates, administrative rebates, and a price protection rebates which all vary by drug and manufacturer. For all drugs invoiced for each of the top 5 Manufacturers, RSM agreed the general rebate percentage per unit, administrative rebate percentage per unit and price protection rebate percentage per unit by rate type and contract type to the individual manufacturer contracts in effect for the period for each line. Rebate percentages are stated as a percentage of wholesale acquisition cost (“WAC”). RSM also validated the WAC unit cost amounts provided by Cigna on the invoice summary provided to the original claim file without exception. RSM notes that there were 45 individual brand prescription types that were tested across the top 5 manufacturers. Each of these individual branded prescriptions have individually defined applicable rebate rates. Also, Cigna shared 100% of what it was obligated to remit to the County per the ASO Agreements. RSM then recalculated each rebate invoiced amount for each rebate type by line.

RSM found no exceptions as a result of applying these procedures.

#### 4. **Invoiced data – agreed invoiced data detail to Manufacturer summary**

RSM agreed total rebates invoiced for each of the top 5 manufacturers to the blinded manufacturer summary.

RSM found no exceptions as a result of applying these procedures.

## Summary of Procedures and Results (continued)

### Control Activities

Based on the Administrative Services Agreement (“ASA”), Cigna has control activities in place to minimize risks associated with pharmacy claims processing. These control activities include, but may not be limited to:

- Quarterly eligibility audits/reconciliations. Cigna will periodically provide a report identifying potential discrepancies in eligibility data provided by the County, as necessary.
- As part of the claim/inquiry services, Cigna tests a sample of claims through validation of benefits (VOB) process. Before a claim is adjudicated, it goes through a series of checks, such as the application of claim validation edits, payment control, cost containment programs like ClaimCheck and fraud and abuse.
- Internal audits of claim payments on a representative, random sample basis.
- Periodic audits of contracted pharmacies in order to determine the accuracy of payments to the pharmacy(ies).

### Improvement Opportunity

#### **County Department of Human Resources – Rebate Monitoring**

Based on inquiry during our review, we determined there is an opportunity to improve monitoring activities surrounding rebates. We would encourage the County Department of Human Resources to enhance its control activities to minimize the risks associated with rebate receipts as owner of the contractual relationship with Cigna and as the user entity. These control activities would include, but may not be limited to:

- Regular audits/reviews of member eligibility, rebates in accordance with contractual limitations to validate appropriate implementation of the annual health plans.
- Review quarterly rebate receipts through analytical review (e.g., trend analysis). Validate that trends are appropriately explained by Cigna and related contractual support can be provided.

## Objectives & Approach

### **Objectives**

RSM performed a pharmaceutical rebate audit for the pharmacy benefit manager, Cigna, of the County.

RSM was engaged to provide consulting services related to the pharmaceutical rebates audit for the pharmacy benefit management services provided by Cigna. The purpose was to validate that Cigna is providing appropriate support services over the pharmacy rebate process. This included obtaining reasonable assurance of the overall effectiveness of the controls in place over the processes, including appropriate source data, contract interpretation, calculation of the pharmacy rebates and administrative fees and, finally, disbursement to the County.

### **Approach**

Our approach included a review of the processes and procedures currently in place to effectively and efficiently manage the drug rebate process, including an analysis of rebate contracts and source amounts, re-adjudication of the rebate calculation and the timely distribution of funds/rebates to the County. Cigna provided RSM with an electronic data file containing all necessary and agreed upon rebate information, so we could timely select and submit the sample which Cigna used to compile all required information for our rebate audit.

RSM selected the top 5 manufacturers from Cigna's manufacturer rebate summary to validate inclusion of the most utilized drugs for calendar year 2019 (45 drugs in total). RSM conducted a review of the drug rebate negotiated contracts, along with all relevant documentation utilized in the rebate adjudication process, including a review of the claims data set utilized to calculate the rebates for the program.

RSM conducted the following procedures as part of our approach for the rebate review:

- Manufacturer summary – obtained blinded manufacturer rebate summary for selection of manufacturers for detailed testing and assessed the completeness of rebates paid to the County for the review.
- Supporting claims data – assessed the accuracy and completeness of the claims data invoiced for rebates.
- Manufacturer invoice testing – assessed the accuracy and completeness of the invoice calculations remitted to the manufacturers.
- Invoiced data – agreed invoiced data detail to manufacturer summary

### **Reporting**

At the conclusion of this review, we vetted the facts and exceptions noted during the review with the appropriate Stakeholder(s) and then prepared a draft report based on our findings. Per our agreement, the draft report was submitted to Cigna, and then the appropriate Stakeholder(s) for review. An exit meeting was held with the Stakeholder(s) and RSM to formally review and discuss the draft report and modify accordingly. The report was finalized upon authorization from the Department of Management and Finance.

lease without RSM Consent

RSM US LLP  
1861 International Drive  
Suite 400  
McLean, VA 22102  
(321) 751-6200  
[www.rsmus.com](http://www.rsmus.com)

DRAFT Do Copy

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party.

For more information, visit [rsmus.com/aboutus](http://rsmus.com/aboutus) for more information regarding RSM US LLP and RSM International.

© 2021 RSM US LLP. All Rights Reserved.

CC

