



MORGAN
HEALTHCARE AUDITS, LLC

PBM
“Pharmacy Benefit Manager”
Audit
Program

Prepared by:
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Introduction

Morgan Healthcare Audits LLC (MHA) formerly MORGAN Enterprises came into being when Federal and State law enforcement agencies acknowledged the need for assistance in identifying, tracking and prosecution of Pharma Industry crimes. Fifteen years later and we still have not lost a case.

We apply the same tenacity and methodology used in working criminal cases to identifying recoveries for our private sector clients. There are two broad areas of recovery contract non compliance and failure to meet Erissa and/or Taft Hartley requirements.

Reducing Rx Spend can best be achieved by attacking the entire PBM process. Large recoveries can be identified in retrospective audits. Substantial savings can be achieved through tough negotiation for an auditable and transparent contract. Moving forward PBM selection and monitoring of that PBM will round out a complete approach to reducing and keeping your Rx Spend in check.

MHA is the auditing firm selected in the ground breaking PBM cases before Judge Limbaugh in Missouri, Fidelity v ESI and Minshew v ESI. MHA currently has 3 additional cases under seal against Medco, ESI and Caremark.

Unlike other PBM auditors who use SVRS (Statistically Valid Random Sampling) in their analysis and projection of recoveries, MHA readjudicates 100% of the claims supplied for audit and backs up each finding with specific claims data for each recoverable dollar identified.

Lastly we can show, through the numbers, when, how and why a PBM made decisions to increase their profits at your expense and the expense of your members.



About Morgan Healthcare Audits LLC

Morgan Healthcare Audits, LLC., (MHA) is a consulting company which provides Pharma Industry audits and related services to health plans, third party administrators and agencies of Local, State, and Federal Government. MHA assists in recovering overpayments, managing health care costs and assists in criminal litigations.

MHA began in 1992 and for the past 15 years, has created a name for itself through tenacious investigative work and analysis by assisting pharmacy chains, insurance companies, government agencies, pharmacy benefit managers, law enforcement and investigative agencies.

MHA has an enviable background in Pharmacy, Computer Systems, Claims Processing and Investigative techniques. Using this unparalleled experience coupled with the latest computer technology MHA has pioneered original methodologies and techniques to conduct audits of PBM's and Pharmacies.

MHA gained invaluable and extensive experience in Evidence Gathering for Criminal and Civil Court proceedings, and MHA applies the same approach to all audit activities. This means that every audit and every finding will stand up in court.

Founder and President

David Morgan, BS Pharm., R.Ph, has a diverse 30 year career in the healthcare industry, is a registered Pharmacist in the state of Pennsylvania and an Expert Witness certified by the Eastern District Court of Virginia in Pharma Industry Forensics. Dave founded Morgan Healthcare Audits (formerly Morgan Enterprises), in 1992 and is responsible for the development and strategic direction of the company. Dave's vision of making prescription coverage affordable to all and his strong commitment to improving the unethical policies of the Pharma Industry has made Morgan Healthcare a formidable force in the auditing arena. In his many years in the pharmacy industry, Dave has developed an extensive understanding of the market place, services offered by the pharmacy benefit managers and pricing terms that are currently available in the industry.

Dave has been asked to participate in several FBI, FDA and DEA task forces and is recognized as the creator of methodology and software that can analyze pharmacy data to detect illegal biological operations within the US border. He also performed the computer forensics necessary to allow the closing and prosecuting of the largest illegal internet pharmacy operation in the United States.

He also served on Pennsylvania Governor Rendell's transition team.

Prior to founding Morgan Healthcare Audits, LLC, Dave held the position of Pharmacy District Manager, Administrator of Computerization of Pharmacies and Third Party Administrator for Weis Markets in Sunbury, Pennsylvania. He was instrumental in setting up the first in-house pharmacy computer system in Central Pennsylvania.

Dave is a graduate of Temple University AND Temple Pharmacy School where he received his B.S. in Pharmacy. He also attended the Harrisburg Area Community College in Harrisburg, PA, where he received an Associate Degree in Computer Applications/Mainframe.

His hard work and dedication enabled him to receive awards such as the Johnson & Johnson Award for Pharmacy Economics, and The Pennsylvania Drug Salesman Award for Pharmacy Management. Dave has published several White Papers regarding the unethical practices in the Pharma Industry and has been interviewed several times by the Wall Street Journal on the topic of Pharmacy Benefit practices.

The PBM Audit Process

Methodology for PBM Audit

The audit starts with analysis of the Client-PBM contract to determine auditability. Each auditable contract item is then reviewed and determination is made as to whether the data elements needed for auditing have been supplied. If they have, we decide whether the item requires a program module be constructed by IT or if it would be easier for the auditor to perform the calculations.

Next a Gant chart is created with each auditable item assigned to a member of our team.

Before any further auditing work is performed our Director of IT and Director of PBM audits spend 2-3 days reviewing all claims and data files to insure data integrity, identify unaccounted for data elements and determine how each currency field was derived.

The IT department then takes the claims file and adds additional data to each record consisting of pricing from 3 data sources, matches on physician ID with state and federal databases, HCFA and Orange Book information. Depending on the contract wording up to 50 additional fields will be added.

Master copies of the completed database are made on multiple media sources and one copy of each source is taken off site and securely stored.

We then select a team consisting of a programmer, PBM auditor and clerical person. Computer modules are created based on the contract terms for readjudication of all paid claims, claims are extracted into specific groups and the Auditor begins analysis of the data.



We attempt to automate no more than 70% of any one audit. That allows the auditor to become very familiar with the data and gives them time to identify any new PBM schemes that might crop up.

The auditors will take an additional 3 to 5 days to run scenarios on patterns that they had identified during other phases of the audit to determine additional schemes and potential recoveries.

In general 2 audits are performed. One based solely on contract terms. The second audit based on PBM industry schemes to over bill or inflate the cost to the Client, in general inappropriately increase the Client's Rx Spend.

Below is an outline of a typical PBM audit chronology followed by an example of our typical PBM contract:

PBM Audit Chronology

1. Receive electronic data load from PBM
2. Receive electronic load from Client (if available)
3. Receive Data File Layout and Data Definitions
4. Build SQL input table
5. Perform initial Data Integrity Checking
 - a. Data positioned in correct fields (i.e. no commas in address fields causing a shift)
 - b. Data corresponds to column headings
 - c. Determine how each dollar figure was calculated and how it applies to the audit.
 - d. All Data Definition values present.
 - i. Report missing definitions
 - ii. Report additional definitions
6. Contract: IT & PBM Auditor meeting
 - a. Are there enough data elements to extract claims in accordance with contract terms
 - b. List data extraction parameters for each extraction
7. IT v PBM Auditors (gradual phase over)
 - a. Load FDB pricing and codes
 - b. Load Redbook Pricing and codes
 - c. Load DEA numbers and look for invalid physicians on claims data.(extract non matches)
 - d. Load Orange book designators (Are non approved generics being used?)
 - e. Load HCFA MAC pricing
 - f. Create Master Data Base
 - g. Perform non contract extractions:
 - i. Voids and associated Paid claims
 - ii. Duplicates and early fills up to 70% of Days Supply
 - iii. Specialty Drugs
 - iv. Package size issues
 - v. Extract Compound Rx Claims
 - vi. Extract Prior Auth Claims
 - vii. Drugs not covered by plans
 - h. Begin extraction by contract terms
 - i. Mail
 1. MAC

2. Non MAC Generic
 3. Brand Name Drug Claims
 - ii. Retail
 1. MAC
 2. Non MAC Generic
 3. Brand Name Drug Claims
 - iii. Check for pricing diff per drug between mail and retail on each price basis.
 - iv. Zero Cost Prescriptions
 - v. Formulary Drugs and other drugs in GCN/GPI Class (look for formulary steering to higher priced drugs in same class)
 - vi. Days Supply Issues
 - vii. Lesser of U&C v AWP-% v MAC
 - viii. If mandatory Generic, Show Copay Differential
 - i. Eligibility
 - i. Load file and do all data integrity checking
 - ii. Run Against paid claims data base
 - iii. Extract claims into new file
 - j. Compare MAC pricing versus HCFA MACs
 - k. Graph/Trend MAC pricing
 - l. Extract and review highest priced drugs
 - i. Shorten days supply
 - ii. Not tied to health conditions
 - iii. Patterns of usage
 - m. Readjudicate using 3 pricing data sources
8. Compare Paid claims history against client billing and payment records.
9. Run PBM claims file against Client reconciliation file for differences.
10. Prepared detailed audit report
11. Prepare supporting data CD's
12. Prepare Executive Audit Report
13. Meet with Client
14. Meet with PBM
15. Perform any Follow up

Audit Time Estimates

Once clean data, data definitions, data layouts and contracts with addendums are received, MHA can complete the audit in 8 to 10 weeks at the current time. This estimate can drop or slightly increase based on the number of simultaneous audits being performed.

Relevant Experience

Our Government clients include:

- Department of Justice (DOJ)
 - Drug Enforcement Agency (DEA)
- The Federal Bureau of Investigation (FBI)
- Pennsylvania (PA) Office of Attorney General
- Pennsylvania Bureau of Narcotics and Dangerous Drugs
 - Pennsylvania Medicaid Fraud Control Section
 - Food and Drug Administration (FDA)
 - New York State Insurance Department
- Center for Medicare and Medicaid Services (CMS)
 - New York State Frauds Bureau
 - New York State Office of Attorney General

Private Industry Associate and Key Client List:

- National Labor Alliance of Health Care Coalitions
- 1199 SEIU National Benefit & Pension Funds
 - Fidelity Insurance Group
 - American Express
 - Ingersoll-Rand
 - Healthguard
 - Foot Locker
 - Honeywell
 - Goodyear
 - Alcatel
 - RxWest
 - Unisys
 - SEPTA
 - EBRx
 - PMCS
 - Centene/UHP
 - Centene/MHA
 - Boies, Schiller & Flexner LLP
 - Milberg Weiss and Associates
- State-Wide Schools Cooperative Health Plan



References

As stated earlier in this RFI, many of our audits are under seal or the terms of the settlements can not be disclosed. Listed below are references that not only encompass PBM audits but include the work we have performed with the Federal and State Governments and PBM's that we have helped to develop a truly auditable and transparent model.

Though not in time for this filing, letters can be provided from the lay firms of Milberg Weiss and Boies, Schiller and Flexner LLP.

Government:

**Andrew Demarest
Senior Deputy Attorney General, Pennsylvania
717 712 5010**

**Linda Marks ESQ
Department of Justice, DC
202 307 0060**

(We performed data collection, analysis and expert witness on an illegal internet pharmacy ring for her "United States v Vincent Chhabra")

Private:

The next two were executives at Fidelity Insurance Group of Hunt Valley MD (FIG was formerly owned by Thomas Knox, Deputy Mayor of Philly under Rendell). United bought them but these gentlemen still represent the stockholders in the PBM litigation based on my audit, against ESI. Our relationship will continue till the litigation is over and possibly in their new venture of health care claims audits.

TPA:

**David Fishbone
215-901-7917**

PBM:

**Jay Ver Hulst
President EBRx
614-228-8163 ext 100**

Start and availability of resources

Staff is permanently assigned to a project within one week after the claims and other requested data has been loaded, converted and checked for data integrity and completeness.

How can success be measured?

1. In the PBM retrospective audit, success is measured in one way.....RECOVERIES.
2. The success of the RFP process and the negotiation of a new contract will be measured in the decreased Rx Spend on a per person per month basis as compared to the previous years figures. Guarantees in the new contract will set the guidelines for measuring the performance of the new PBM from a customer satisfaction and responsiveness standpoint.