Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

REPORT ON THE MEDICARE DRUG DISCOUNT CARD PROGRAM SPONSOR MEDCO HEALTH SOLUTIONS

SEPTEMBER 2006
A-06-05-00066

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

September 25, 2006

Report Number: A-06-05-00066

Daniele Ruskin
Vice President and Counsel, Government Programs
Medco Health Solutions, Inc.
100 Parsons Pond Drive
Franklin Lakes, New Jersey 07417

Dear Ms. Ruskin:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Report on the Medicare Drug Discount Card Program Sponsor Medco Health Solutions." A copy of this report will be forwarded to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-06-05-00066 in all correspondence.

Sincerely,

Mark D. Ablen

for Gordon L. Sato
Regional Inspector General
For Audit Services

Enclosures

Direct Reply to HHS Action Official:

Cynthia Moreno
Director, Plan Oversight and Accountability Group
Centers for Medicare & Medicaid Services
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EXECUTIVE SUMMARY

BACKGROUND

Medicare Drug Discount Card Program and Transitional Assistance

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), section 1860D-31(a)(1), established a drug discount card program to provide eligible individuals with access to prescription drug discounts and transitional assistance (TA) subsidies. The program began in June 2004 and ended in December 2005 or when the beneficiary enrolled in the Medicare Part D drug program, whichever occurred first. However, if enrolled by December 2005, a beneficiary could have used the drug discount card through May 2006.

Section 1860D-31(h)(4) and (8) of the MMA required drug discount card sponsors to pass on negotiated prices to beneficiaries and ensure that beneficiaries were not charged more than the lower of the negotiated prices or the usual and customary prices. The MMA, section 1860D-31(d)(2)(C), also required sponsors to provide a beneficiary's TA balance to the pharmacy when a prescription was filled. Beneficiaries received a maximum TA subsidy of $600 per year for 2004 and 2005; the amount was prorated for 2005 based on when they enrolled in the program. Beneficiaries who enrolled in 2004 received the entire $600, regardless of the month they enrolled.[1] The Centers for Medicare & Medicaid Services (CMS) added any amount not used in 2004 to the 2005 benefit.

To recoup claimed expenditure payments made to the pharmacies, sponsors withdrew funds from the Payment Management System. All claim expenditures and withdrawals should have been reported to CMS on the Transitional Assistance Monthly Expense and Reconciliation Report (TAMER).

The MMA, section 1860D-2(e)(2)(A), excludes specific drugs and drug classes from the definition of "covered Part D drug." Any drug or class of drugs that is excluded should not have been purchased with TA funds. In August 2005, CMS issued a memo directing all drug discount card sponsors to determine whether they had used TA funds to pay for excluded drugs. The memo requested that the sponsors repay CMS for any funds used for excluded drugs.

Medco Health Solutions

Medco Health Solutions, Inc. (Medco), a pharmacy benefit manager (PBM) in Franklin Lakes, New Jersey, offered two drug discount cards to Medicare beneficiaries. Medco had rebate agreements with approximately 80 manufacturers and had discount arrangements with virtually all retail pharmacies in the United States. Medco manages 9 mail-order pharmacies, 6 call centers, and a nationwide network of approximately 60,000

[1] All individuals whose applications were received in December 2004 were officially enrolled in January 2005. However, those individuals received the full TA entitlement for 2004 and 2005.

pharmacies. It submitted approximately $90 million in claims to CMS for TA expenditures from June 2004 through May 2005.

IntegriGuard

CMS contracted with IntegriGuard, LLC, to audit Medicare drug discount card programs. The program safeguard contractor reviewed a variety of issues, including enrollment, TA fund limits, and excluded drugs. We met with IntegriGuard and reviewed some of their work papers in an effort to understand the program and develop audit areas.

Transition to Medicare Part D

Medco is participating in the Medicare Part D drug program. CMS requires prescription drug plan (PDP) sponsors in the Part D program to ensure that:

- beneficiaries have access to drugs at negotiated prices,
- payments for beneficiaries and claims submitted to CMS are correct, and
- statutorily excluded drugs are not included in the program.

OBJECTIVES

Our objectives were to determine whether Medco complied with Federal requirements to (1) ensure that beneficiaries did not exceed their TA limits, (2) apply TA funds only to covered drugs, (3) pass on negotiated prices to beneficiaries and offer the lower of the negotiated prices or the usual and customary prices, and (4) support the expenditures and withdrawals it reported to CMS.

SUMMARY OF FINDINGS

Medco properly recorded on the TAMER the expenditures it made on behalf of beneficiaries and the withdrawals it made, as reflected on its bank deposit records, to recoup the expenditures. However, Medco did not have proper procedures in place to ensure that it always complied with Federal requirements to:

- ensure that beneficiaries did not exceed their TA fund limits,
- apply TA funds only to covered drugs, and
- pass on negotiated prices to beneficiaries.

As a result, CMS overpaid $43,103 for expenses that exceeded TA fund limits and $125,679 for excluded drugs for the period July 12, 2004, through July 31, 2005. In October 2005, Medco reimbursed CMS $110,146 for excluded drugs for the period June 2004 through October 2005.

RECOMMENDATIONS

We recommend that Medco:

- reimburse CMS for the $43,103 by which it exceeded TA fund limits;
- determine whether the amount Medco reimbursed CMS for excluded drugs included any of the $125,679 in TA funds identified in the audit and reimburse the difference; and
- implement policies and procedures, as a PDP sponsor in Part D, to ensure that it (1) does not pay for statutorily excluded drugs with CMS funds and (2) offers negotiated prices to the beneficiaries.

MEDCO HEALTH SOLUTIONS'S COMMENTS

In its written comments on our draft report, Medco agreed that errors had occurred, but did not agree with the dollar amounts we identified.

Medco's comments are included in their entirety in the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We reviewed additional documentation Medco provided on the TA fund limits and do not agree with Medco's methodology for determining the amounts owed to CMS. We believe that our finding is correct and that Medco should reimburse CMS for the $43,103 by which it exceeded TA fund limits.

We believe that our finding regarding excluded drugs is correct and that Medco should reimburse CMS for the $15,533 in excluded drug charges that it has not yet repaid.

TABLE OF CONTENTS

APPENDIX

MEDCO HEALTH SOLUTIONS'S COMMENTS

INTRODUCTION

BACKGROUND

Medicare Drug Discount Card Program and Transitional Assistance

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), section 1860D-31(a)(1), established a drug discount card program to provide eligible individuals with access to prescription drug discounts and transitional assistance (TA) subsidies. The program began in June 2004 and ended in December 2005 or when the beneficiary enrolled in the Medicare Part D drug program, whichever occurred first. However, if enrolled by December 2005, a beneficiary could have used the drug discount card through May 2006. The Medicare Part D program went into effect January 1, 2006. Like the drug discount card program, Medicare Part D provides discount drug coverage to Medicare-eligible individuals.

Under the drug discount card program, the Centers for Medicare & Medicaid Services (CMS) provided TA subsidies to low-income Medicare beneficiaries whose prescription drugs were not covered by Medicaid or another insurance plan. Eligible beneficiaries were entitled to $600 per year in 2004 and 2005; funds not used during 2004 were rolled over into 2005. Individuals who enrolled in 2004 were eligible for the entire $600 subsidy, regardless of when they enrolled in the program.[1] Beneficiaries who enrolled in 2005 received a prorated subsidy based on the date they enrolled. When applying TA toward the purchase of prescription drugs, beneficiaries who had incomes at or below 100 percent of the poverty level paid a 5-percent coinsurance payment, and those with incomes between 101 and 135 percent of the poverty level paid a 10-percent coinsurance payment.

In addition, Medicare paid the annual drug discount card program enrollment fee, if any, a sponsor charged for eligible beneficiaries.

Centers for Medicare & Medicaid Services Requirements

CMS required drug discount card sponsors to:

- obtain manufacturer discounts or rebates on brand name and generic drugs and share the savings with beneficiaries;
- enroll all eligible Medicare beneficiaries who applied to their programs and resided in their service areas;
- administer the TA program for all card enrollees who applied for subsidies and met eligibility requirements;

[1]All individuals whose applications were received in December 2004 were officially enrolled in January 2005. However, those individuals received the full TA entitlement for 2004 and 2005.

- provide access to discounts on at least one brand name or generic prescription drug in each of the therapeutic drug classes, groups, and subgroups of prescription drugs Medicare beneficiaries commonly need; and

- charge CMS an annual enrollment fee of no more than $30 per beneficiary.

Federal Requirements

The MMA, section 1860D-31(h)(4) and (8), required drug discount card program sponsors to pass on negotiated rates to beneficiaries and ensure that beneficiaries were not charged more than the lower of the negotiated prices or the usual and customary prices. Negotiated prices take into account any manufacturer rebates, pharmacy discounts, and pharmacy dispensing fees. Manufacturers base rebates on a periodically updated published price that includes the wholesale acquisition cost (WAC) and the average wholesale price (AWP). The usual and customary price is what the pharmacy normally charges for the drug if the beneficiary does not have insurance. The MMA, section 1860D-31(d)(2)(C), also required sponsors to provide a beneficiary's TA balance to the pharmacy when a prescription was filled.

To recoup claimed expenditure payments to pharmacies, sponsors withdrew funds from the Payment Management System. All claim expenditures and withdrawals should have been reported to CMS on the Transitional Assistance Monthly Expense and Reconciliation Report (TAMER).

The MMA, section 1860D-2(e)(2)(A), excludes specific drugs and drug classes from the definition of "covered Part D drug." Any drug or class of drugs that is excluded should not have been purchased with TA funds. In August 2005, CMS issued a memo directing all drug discount card sponsors to determine whether they had used TA funds to pay for excluded drugs. The memo requested that sponsors repay CMS for any funds used for excluded drugs.

Medco Health Solutions

Medco Health Solutions, Inc. (Medco), a pharmacy benefit manager (PBM) in Franklin Lakes, New Jersey, offered two drug discount cards to Medicare beneficiaries. Medco had rebate agreements with approximately 80 manufacturers and had discount arrangements with virtually all retail pharmacies in the United States. Medco manages 9 mail-order pharmacies, 6 call centers, and a nationwide network of approximately 60,000 pharmacies. It submitted approximately $90 million in claims to CMS for TA expenditures from June 2004 through May 2005.

IntegriGuard

CMS contracted with IntegriGuard, LLC, to audit Medicare drug discount card programs. The program safeguard contractor reviewed a variety of issues, including enrollment, TA

fund limits, and excluded drugs. We met with IntegriGuard and reviewed some of their work papers in an effort to understand the program and develop audit areas.

Transition To Medicare Part D

Medco is participating in the Part D drug program. CMS requires prescription drug plan (PDP) sponsors in the Part D program to ensure that:

- beneficiaries have access to drugs at negotiated prices,
- payments for beneficiaries and claims submitted to CMS are correct, and
- statutorily excluded drugs are not included in the program.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether Medco complied with Federal requirements to (1) ensure that beneficiaries did not exceed their TA limits, (2) apply TA funds only to covered drugs, (3) pass on negotiated prices to beneficiaries and offer the lower of the negotiated prices or the usual and customary prices, and (4) support the expenditures and withdrawals it reported to CMS.

Scope

For the period June 2004 through May 2005, Medco submitted TA expenditure claims to CMS totaling approximately $90 million. We limited our review of the drug discount card program to claims paid with TA subsidies.

We reviewed the drug prices Medco negotiated with drug manufacturers and pharmacies for July 2004 (the second full month of the program) and May 2005 (the most current month that data were available when we started the audit). To determine whether Medco offered beneficiaries the prices negotiated with drug manufacturers and pharmacies, we repriced the negotiated prices Medco claimed on 200 sampled claims by using the pricing methodology set forth in its contracts.

As part of our audit, we:

- relied on the enrollment information IntegriGuard provided;

- used Medco's payment data;

- did not perform a detailed review of Medco's internal controls because the audit objectives did not require it; and

- did not review the $110,146 Medco reimbursed CMS for excluded drugs to determine whether it was included in the $125,679 in excluded drugs we identified.

We performed the audit at Medco's corporate headquarters in Franklin Lakes, New Jersey.

Methodology

To perform our audit, we:

- met with IntegriGuard officials and reviewed some of their work papers in an effort to understand the program and develop audit areas;

- obtained Medco's bank records to compare them to the amounts recorded as withdrawals on the TAMER;

- obtained the claim information to compare it to the expenditures recorded on the TAMER;

- reviewed Medco's policies and procedures regarding TA;

- selected the months of July 2004 and May 2005 to reprice a sample of claims, and reviewed an unrestricted random sample of 100 claims for each of the 2 months;

- reviewed the contracts between Medco and CMS, manufacturers, pharmacies, and other entities; and

- analyzed all claims from the period June 2004 through July 2005 to determine whether the drugs on the claims were excluded drugs and whether beneficiaries exceeded their TA fund limits.

We did not rely on IntegriGuard's work because it (1) did not cover the same period as our review of TA, (2) did not use all of the criteria available to determine excluded drugs, and (3) did not include negotiated prices in its review. Additionally, in its report to CMS, IntegriGuard did not recommend that Medco reimburse CMS for funds used to pay for excluded drugs and excess TA.

Additionally, our methodology for analyzing TA limitations was different from IntegriGuard's methodology. For example, IntegriGuard used Social Security numbers to determine beneficiaries' TA totals. We used member identification numbers because it is possible for two beneficiaries—a husband and wife, for example—to share the same Social Security number. The Social Security numbers in Medco's claim database did not include beneficiary identification codes, which are less likely to be duplicated.

We conducted our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Medco properly recorded on the TAMER the expenditures it made on behalf of beneficiaries and the withdrawals it made, as reflected on its bank deposit records, to recoup the expenditures. However, Medco did not have proper procedures in place to ensure that it always complied with Federal requirements to

- ensure that beneficiaries did not exceed their TA fund limits,
- apply TA funds only to covered drugs, and
- pass on negotiated prices to beneficiaries.

As a result, CMS overpaid Medco $43,103 for beneficiaries who exceeded their TA limits and $125,679 for excluded drugs for the period July 12, 2004, through July 31, 2005. In October 2005, Medco reimbursed CMS $110,146 for excluded drugs for the period June 2004 through October 2005.

TRANSITIONAL ASSISTANCE LIMITS

Federal Requirements

The MMA, section 1860D-31(g)(2)(A), limited the TA subsidy amount a qualified beneficiary could receive to $600 during 2004 and $600 during 2005. CMS prorated the amount for 2005 based on the date the beneficiary enrolled in the program. Beneficiaries who enrolled in 2004 received the entire $600, regardless of the month they enrolled. CMS added any amount not used during 2004 to the 2005 benefit.

Transitional Assistance Limits Exceeded

For the period June 2004 through July 2005, Medco allowed 140 beneficiaries to exceed their TA fund limits. For 2004, the amount exceeding the TA fund limits ranged from $24 to $600 for 29 beneficiaries. For 2005, the amount exceeding the TA fund limits ranged from $1 to $650 for 118 beneficiaries. Seven beneficiaries exceeded their TA fund limits in both 2004 and 2005.

Inadequate Procedures

Medco did not have adequate procedures in place to ensure that beneficiaries did not exceed their TA fund limits as required by the MMA.

Excess Transitional Assistance Funds

Because Medco did not have adequate procedures in place to ensure that beneficiaries did not exceed their TA fund limits, Medco overpaid $43,103 for 140 beneficiaries. Specifically, Medco paid:

- $9,180 for 29 beneficiaries who exceeded their TA fund limits in 2004 and
- $33,923 for 118 beneficiaries who exceeded their TA fund limits in 2005.

EXCLUDED DRUGS

Federal Requirements

The MMA, section 1860D-2(e)(2)(A), excludes specific drugs and drug classes from the definition of "covered Part D drug." Regulations (CFR § 403.802) define covered Part D drugs and state which drugs are included and excluded. Any drug that falls into one of the excluded classes of drugs cannot be purchased with TA funds.

In July 2004, CMS issued a list of two classes of excluded drugs; in November 2004, it issued an updated list that covered all classes of excluded drugs as of December 2004. CMS based the lists on the National Drug Code (NDC), which identifies each drug by a specific code. On August 29, 2005, CMS issued a memo directing all drug discount card sponsors to determine whether they had used TA funds to pay for excluded drugs. The memo specified which list to use for the appropriate periods and requested that sponsors repay CMS for any TA funds used for excluded drugs.

Transitional Assistance Funds Used for Statutorily Excluded Drugs

From July 12, 2004, to July 31, 2005, Medco charged CMS for 5,201claims for drugs that were statutorily excluded from the drug discount card program and for which payment should not have been made.

Excluded Drug List Not Updated in a Timely Manner

Medco paid for excluded drugs because it did not update the list of excluded drugs in its system in a timely manner.

Charged for Statutorily Excluded Drugs

Because Medco did not update its list of excluded drugs in a timely manner, CMS overpaid Medco $125,679 for 5,201 claims. Using the guidelines that CMS issued to drug card sponsors on August 29, 2005, the breakdown of claims Medco submitted to CMS for statutorily excluded drugs is:

- $80,488 for 4,723 claims made from July 12 through December 3, 2004; and
- $45,191 for 478 claims made from December 4, 2004, through July 31, 2005.

In October 2005, Medco reimbursed CMS $110,146 for excluded drugs that it identified based on the criteria CMS used in its August 2005 memo to sponsors.

NEGOTIATED PRICES

Federal Requirements

The MMA, sections 1860D-31(h)(4) and (8), required sponsors to pass on negotiated rates to beneficiaries and ensure that beneficiaries were not charged more than the lower of the negotiated prices or the usual and customary prices.

Federal regulations (42 CFR § 403.806(d)(6)) required sponsors to pass on a share of any discounts, rebates, or other price concessions to beneficiaries through negotiated prices. Medco's contracts with drug manufacturers specified the amount of the rebates that Medco should have passed on to the beneficiaries and what amount it should have kept.

Negotiated Prices Were Not Passed On to Beneficiaries

Medco did not always comply with Federal requirements and Medco contracts to pass on negotiated prices to the beneficiaries. The contracts specifically stated the amount of the rebate that should have been passed on to the beneficiaries. Of the 200 claims we reviewed, 8 claims did not include the correct amount of the manufacturer's rebate as required by the contracts.

Inadequate Procedures

Medco did not have adequate procedures in place to ensure that it complied with the MMA's requirements to pass on negotiated prices to beneficiaries. Specifically, Medco:

- did not update its system to calculate drug rebates on individual claims using the correct WAC,
- claimed rebates from manufacturers using an average WAC and submitted claims for payment using the WAC specific to the claim, and
- used an incorrect conversion factor to convert AWP to WAC.

As a result, beneficiaries did not receive the rebate amounts to which they were entitled.

Claims Billed Incorrectly

While the dollar amounts of these errors are not material, these problems could become material as Medco continues as a Part D provider.

RECOMMENDATIONS

We recommend that Medco:

- reimburse CMS for the $43,103 by which it exceeded TA fund limits;
- determine whether the amount Medco reimbursed CMS for excluded drugs included any of the $125,679 in TA funds identified in the audit and reimburse the difference; and
- implement policies and procedures, as a PDP sponsor in Part D, to ensure that it (1) does not pay for statutorily excluded drugs with CMS funds and (2) offers negotiated prices to the beneficiaries.

MEDCO HEALTH SOLUTIONS'S COMMENTS

In its written comments on our draft report, Medco agreed that errors had occurred, but did not agree with the dollar amounts we identified. Regarding TA funds, Medco stated that it had conducted its own review to determine the amount by which it had exceeded TA fund limits. Medco's review determined that not all of the beneficiaries we had identified exceeded their TA fund limits, and it identified several beneficiaries who did exceed their TA fund limits but who we did not identify. We did not identify these additional beneficiaries because they exceeded their TA limit after our audit period. Medco determined that it had charged $81,426 for beneficiaries who had exceeded their TA fund limits and said that it will reimburse CMS the full amount.

Medco stated that it had identified 13 claims for $1,405 for excluded drugs that the audit did not identify and that it will repay to CMS. Medco stated that it has developed a process for the Medicare Part D program for reviewing excluded drugs biweekly to ensure that they are properly excluded.

Medco stated that the WAC conversion process was manual and that the errors were not material, but realizes the potential of the issue. Medco stated that it has started to automate the WAC conversion process for the Medicare Part D program.

Medco's comments are included in their entirety in the Appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We reviewed the additional documentation Medco provided on the TA fund limits and do not agree with Medco's methodology for determining the amounts owed to CMS. Medco allowed all beneficiaries enrolled in the program in both 2004 and 2005 a total of $1,200 in TA funds, regardless of when the funds were used. Thus, a beneficiary could have exceeded the $600 allowed during 2004. The MMA, section 1860D-31(g)(2)(A), and additional information provided by CMS allow for only $600 each year, though any amount not used in 2004 was rolled over into 2005. Additionally, Medco allowed beneficiaries who enrolled in 2005 to receive $1,200 rather than the maximum of $600.

Medco did not address the difference between the $110,146 in excluded drugs that it previously repaid to CMS and the $125,679 in excluded drugs that we identified in our audit. We believe that our finding regarding excluded drugs is correct and Medco should reimburse CMS $15,533 for the excluded drug charges that it has not yet repaid.

APPENDIX

Daniele Ruskin
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July 21, 2006

Via Overnight Delivery
Mr. Gordon L. Sato
Regional Inspector General
For Audit Services
Office of Inspector General
Office of Audit Services
Department of Health and Human Services
1100 Commerce, Room 632
Dallas, Texas 75242

Subject: Response to the Report on the Medicare Drug Discount Card Program Sponsor ("Report")

Dear Mr. Sato:

May I thank you again for your courtesy in extending Medco's time to respond to the Report. Medco's responses are addressed below seriatim, in the same order as the findings were listed in the Report.

A. Transitional Assistance Limits

Summary Findings: Medco allowed a number of beneficiaries to exceed their TA Limits; Medco did not have adequate procedures to ensure the TA Limit was not exceeded. The Report recommends reimbursement by Medco in the amount of $43,103.00.

Medco's Response: Medco analyzed the claims in the sample for the enrollees who had exceeded their TA, and determined that Medco had already identified some of these enrollees during its own scheduled review and had targeted the amounts at issue for reimbursement to CMS.

Indeed, in addition to reviewing the enrollees included in the Report, Medco has conducted an additional review of *all* its Discount Card enrollees in order to ensure that should there be other enrollees who exceeded their TA during their membership in the Discount Card program, the amounts in excess of the TA will be refunded in full to CMS.

Medco found that (i) not all enrollees who were identified in the sample had exceeded their TA; and (ii) a number of enrollees who were not included in the sample exceeded their TA.

As a result, Medco confirmed that the total reimbursement amount due to CMS is $81,426.30, of which $7,938.83 relates to the enrollees included in the Report. This total amount will be refunded in full to CMS.

B. Excluded Drugs

Summary Findings: Medco charged CMS for certain statutorily excluded drugs because it did not update the excluded drug list in its systems timely. Medco must determine whether the amount it reimbursed CMS for those drugs included the $125,679 in TA funds identified in the audit.

Medco's Response: Medco analyzed the excluded drugs in the sample to verify that it in fact had already reimbursed CMS for the majority of the excluded drugs paid in error, as identified in the Report. Medco has determined that it will review all of the claims enrollees incurred during the life of the Discount Card program and should Medco identify claims that should have been excluded, and were not already reimbursed to CMS, it will reimburse any and all monies owed to CMS.

With respect to the administration of the Medicare Part D program, to address this potential vulnerability, Medco has developed a process whereby all excluded drugs will be reviewed on a cycle (i.e., bi-weekly) basis to ensure that the drugs are properly excluded for the Medicare Part D program.

C. Negotiated Prices

Summary Findings: 8 claims were found not to include the correct manufacturer rebate amount. Medco did not have procedures in place, did not update its systems timely to calculate the rebates on individual claims using the correct WAC, claimed rebates from manufacturers using an average WAC and submitted claims for payment using the WAC specific to the claim, used an incorrect conversion factor to convert AWP to WAC.

Medco's Response: The WAC conversion was a manual process at Medco for the Discount Card program, which explains that certain errors were made. We note that the issues related to the WAC conversion and the timing between the point of sale (POS) rebate calculation and the rebates invoiced to the manufacturers did not have a material impact on the Medco's Discount Card enrollees. However, Medco acknowledged this potential issue by beginning the process of automating the WAC conversion for the Medicare Part D programs it currently administers. To date, several steps in the conversion process have been automated. Systems are updated on a monthly basis.

With respect the Medicare Part D program, Medco's bid for calendar 2007 does not include rebate pass through at POS. Therefore this risk will be eliminated altogether henceforth.

We trust that this letter fully addressed the findings noted in the Report. If you have any questions on this response please do not hesitate to contact me directly.

Very truly yours,

Daniele Ruskin

Daniele Ruskin

Daniele Ruskin
Vice President and Counsel
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August 3, 2006

Via Overnight Delivery
Mr. Gordon L. Sato
Regional Inspector General
For Audit Services
Office of Inspector General
Office of Audit Services
Department of Health and Human Services
1100 Commerce, Room 632
Dallas, Texas 75242

Subject: Supplemental Response to the Report on the Medicare Drug Discount Card Program Sponsor ("Report")

Dear Mr. Sato:

Thank you again for allowing Medco to present this more detailed, supplemental response and attachments.

I have enclosed the following files that detail our result for the claims included in the samples.

A. Transitional Assistance Limits

Summary Findings: The Report recommends reimbursement by Medco in the amount of $43,103.00.

Medco's Supplemental Response: A file which will be provided tomorrow will list the amounts paid in excess of the TA limit for the claims in the sample.

Medco had confirmed that of the $43,103.00, it owes the amount of **$7,938.83** which it will reimburse CMS. Medco does not believe that it owes any additional monies beyond that amount, mostly due to the fact that members had a TA limit of $1,200, not $600 for the period.

As noted in our correspondence dated July 24, Medco also confirmed that the total reimbursement amount due to CMS on the entire membership is $81,426.30. Medco will reimburse CMS all amounts owed.

B. Excluded Drugs

Summary Findings: Medco must determine whether the amount it reimbursed CMS for those drugs included the $125,679 in TA funds identified in the audit.

Medco's Supplemental Response: Two files are attached, for July and November which list the amounts paid in error on each claim in the sample.

The Report noted that Medco already repaid CMS the amount of $110, 146.

The files which provide results at an individual claim level, indicate no monies due to CMS.

Finally, Medco provided one additional file, which contains 13 claims totaling $1,404.91, which were not identified on audit, but which it paid in error; this amount will be reimbursed to CMS.

We trust that this supplemental response and enclosed files fully address the findings noted in the Report. If you have any additional please do not hesitate to contact me.

Very truly yours,

Daniele Ruskin

Daniele Ruskin
Vice President and Counsel
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August 4, 2006

Via Overnight Delivery
Mr. Gordon L. Sato
Regional Inspector General
For Audit Services
Office of Inspector General
Office of Audit Services
Department of Health and Human Services
1100 Commerce, Room 632
Dallas, Texas 75242

Subject: *Second* Supplemental Response to the Report on the Medicare Drug Discount Card Program Sponsor ("Report")

Dear Mr. Sato:

I have enclosed the following files that detail our result for the claims included in the samples. The two statements in italics are updates from our letter dated 8/3/06.

A. Transitional Assistance Limits

Summary Findings: The Report recommends reimbursement by Medco in the amount of $43,103.00.

Medco's Supplemental Response: *The files are attached which support the Report's samples and list the amounts paid in excess of the TA limit for the claims in the sample.*

Medco had confirmed that of the $43,103.00, it owes the amount of ***$9,687.88*** which it will reimburse CMS. Medco does not believe that it owes any additional monies beyond that amount, mostly due to the fact that members had a TA limit of $1,200, not $600 for the period.

As noted in our correspondence dated July 24, Medco also confirmed that the total reimbursement amount due to CMS on the entire membership is $81,426.30. Medco will reimburse CMS all amounts owed.

B. Excluded Drugs

Summary Findings: Medco must determine whether the amount it reimbursed CMS for those drugs included the $125,679 in TA funds identified in the audit.

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The files which provide results at an individual claim level, indicate no monies due to CMS.

Finally, Medco provided one additional file, which contains 13 claims totaling $1,404.91, which were not identified on audit, but which it paid in error; this amount will be reimbursed to CMS.

We trust that this supplemental response and enclosed files fully address the findings noted in the Report. If you have any additional please do not hesitate to contact me.

Very truly yours,

Daniele Ruskin

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CMMA	1
Regional Office	2
Dallas Field Office	1

POSTED ON THE WEB? Yes