

# PBM Best Practices series: Rebate audit services

Gregory O. Callahan, MBA  
Janus C. Desquitado, CPhT



Pharmaceutical manufacturer rebates are a key financial driver that influence drug spend, how plan sponsors cover prescription drugs, and how much patients pay for them. An estimated \$90 billion to \$100 billion in rebates is paid to plan sponsors each year, split across private health plans, Medicare Part D plans, Medicaid, and other payers.<sup>1</sup>

Auditing the administration of the rebate program, including dollars paid, is a proven strategy for improving plan sponsor profitability, prescription drug affordability, and the management of pharmacy benefit manager (PBM) contracts.

## Rebate audit return on investment

Rebates can make up to 40% of a brand drug's list price in today's market.<sup>2</sup> A rebate audit is designed to evaluate the accuracy and integrity of contracted arrangements and evaluate whether the PBM is meeting its obligations and guarantees. The audit includes identifying errors, proposing solutions, determining the efficiency of administrative practices, and assessing the recovery potential if there are errors. Based on our own experience, when conducted by an experienced pharmacy benefit consultant, rebate audits generally, at a minimum, pay for itself and, more importantly, sets the precedent that the PBM knows it may be audited in any given year.

## Rebate audit objectives

The purpose of a PBM rebate audit is to evaluate whether the PBM accurately invoiced the pharmaceutical manufacturers and then whether the correct rebate amount was paid to the plan sponsor for the audit period. Rebate audits identify lost or late revenue by focusing on the accuracy and timing of rebate payments from pharmaceutical manufacturers to the PBM and subsequently to the plan sponsor. Each audit

assesses the financial and procedural accuracy of rebate reimbursements based on each plan sponsor's contracted arrangement with the PBM, by following the incurred claims through to the payment of rebates.

Additionally, an evaluation of the minimum rebate guarantee payments and pass-through amounts from the PBM determines whether the PBM is paying the contracted rebate guarantees in accordance with its agreement.

## Rebate audit process

A comprehensive audit usually takes place in two stages. The first stage is a review of the claims for the audit period. This starts with an electronic audit of all claims followed by a manual review of potential issues identified in the first stage. The second stage may require an on-site review of pharmaceutical manufacturer or rebate aggregator contracts with the PBM.

The electronic audit tests and validates 100% of claims. This step identifies both systemic issues and issues with specific claims. For example, this first stage may uncover that the PBM mistakenly excluded an entire list or class of drugs from the rebate pool. The pharmacy benefit consultant then examines claims that the electronic testing flagged from the complete data set because of potential discrepancies.

In the second stage, consultants are typically required to travel on-site to the PBM's location to review pharmaceutical manufacturer contracts. In total, the rebate audit includes a combination of an on-site and off-site review of the following:

- The agreements between the pharmaceutical manufacturers and the PBM
- The rebate invoicing compared to the manufacturer agreement terms
- Rebate payments made to the PBM and a review of timely payments made to the plan sponsor in accordance with the contract
- Historical reports of rebates generated and their conformance with the plan's contractual guarantees, including claim-level detail reports, unpaid or denied payments reports, and unpaid rebates reports

<sup>1</sup> Altarum (April 2018). The Impact of Prescription Drug Rebates on Health Plans and Consumers. Retrieved May 10, 2020, from [https://altarum.org/sites/default/files/Altarum-Prescription-Drug-Rebate-Report\\_April-2018.pdf](https://altarum.org/sites/default/files/Altarum-Prescription-Drug-Rebate-Report_April-2018.pdf).

<sup>2</sup> Drug Channels (March 20, 2018). Janssen's new transparency report: A peek behind the drug pricing curtain raises troubling questions about rebates. Retrieved May 10, 2020, from <http://www.drugchannels.net/2018/03/janssens-new-transparency-report-peek.html>.

The rebate audit is typically completed in 90 days or less from the receipt of the data. The amount of time depends heavily on the transparency of the PBM and its responsiveness to the auditor's questions related to manufacturer arrangements.

## Report development and delivery

At the end of the audit, the findings are compiled and a preliminary report is delivered to the plan sponsor and the PBM for review, comment, and clarification. This is followed by a reconciliation assessment, in which the pharmacy benefit consultant reevaluates identified claim errors based on the PBM's response to the preliminary report.

The final report takes the PBM's responses and reconciliation process into consideration, explains the pharmacy benefit consultant's position on each item, and makes recommendations for any corrective action needed. The final audit report includes a discussion of the following categories:

- Audit process and findings
- Any systemic or repetitious errors, noncompliance with contractual requirements, or inadequacies in claim control procedures
- Financial and service impact of audit findings
- Specific problem areas warranting corrective action or further investigation

## Recovery effort

Once the audit is complete and the report delivered to the plan, the recovery effort begins. This process is separate from the audit, and the plan sponsor must decide whether to engage an outside consultant for this matter, or to handle it in-house. The recovery effort can take longer than the audit, because it involves multiple communications between the PBM and the pharmacy benefit consultant (or in-house administrator) to ensure that issues are resolved to the plan sponsor's satisfaction, that any reimbursement is made, and that all administration concerns are resolved and corrected.

## Conclusion

Plan sponsors need to evaluate whether their rebates received are in line with their contracts. A properly conducted rebate audit can identify unpaid rebates and strengthen the relationship between the plan sponsor and the PBM. Plan sponsors must also utilize rebate audits and contract reviews to ensure that they are in a strong position to maximize the rebate dollars received. Auditing the rebate process is a recognized strategy to improve plan sponsor profitability, prescription drug affordability, and the management of PBM contracts.



Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

[milliman.com](http://milliman.com)

### CONTACT

Gregory O. Callahan  
[greg.callahan@milliman.com](mailto:greg.callahan@milliman.com)

Janus C. Desquitado  
[janus.desquitado@milliman.com](mailto:janus.desquitado@milliman.com)

To read other articles in the series, visit  
[milliman.com/prescription-drugs](http://milliman.com/prescription-drugs)