Gold Coast Health Plan

Its Reimbursements to Pharmacies Are Reasonable, but Its Pharmacy Benefits Manager Did Not Always Process Claims Correctly

August 2019
August 15, 2019  
2018-124

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, my office conducted an audit of Gold Coast Health Plan’s (Gold Coast) oversight of OptumRx, Inc. (OptumRx), the contractor that Gold Coast chose to serve as its pharmacy benefits manager (PBM). A PBM processes prescription drug claims on behalf of a health plan. This report concludes that Gold Coast could have taken earlier action to address errors made by OptumRx when processing pharmacies’ prescription reimbursement claims. Further, although Gold Coast’s reimbursements may be lower than those of other comparable health plans, they are reasonable and align with the Department of Health Care Services’ (DHCS) encouragement to health plans that they achieve efficient and reasonable pharmacy benefits costs.

OptumRx became Gold Coast’s PBM after Gold Coast issued a July 2015 request for proposals and conducted a thorough review of the proposals it received. Based on that review, Gold Coast recommended a PBM to the Ventura County Medi-Cal Managed Care Commission (commission), which created and oversees Gold Coast. However, the commission instead chose to award the contract to the lowest-scoring vendor, OptumRx. The commission’s decision was largely because OptumRx offered the lowest cost, but the commission did not state publicly its reason for making this decision, which made its selection process lack transparency.

During its first year as Gold Coast’s PBM, OptumRx made three errors in its processing of pharmacies’ prescription reimbursement claims, resulting in its overpayment of thousands of claims by a total of more than $6 million. Although Gold Coast took steps to understand the cause of the errors, it could have taken formal action earlier to address the first error, which may have prevented subsequent errors from occurring.

After OptumRx began providing services, independent pharmacies complained that its reimbursements were too low. We did find that OptumRx’s reimbursements were often significantly less than other comparable health plans; however, these lower amounts align with DHCS’ encouragement to Gold Coast to achieve efficient and reasonable pharmacy benefits costs. Gold Coast also contracted with a consultant to assess OptumRx’s reimbursements, and the consultant found that OptumRx’s reimbursements were within market value of health plans in California and nationwide. Finally, Gold Coast has maintained a network of pharmacies that provide its beneficiaries with access to pharmacy services within 10 miles or 30 minutes from their places of residence, as required by state law. Taking these factors into consideration, we conclude that OptumRx’s reimbursements were reasonable for the period we reviewed.

Respectfully submitted,

Elaine M. Howle, CPA  
California State Auditor
Selected Abbreviations Used in This Report

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>COHS</td>
<td>County Organized Health System</td>
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<tr>
<td>commission</td>
<td>Ventura County Medi-Cal Managed Care Commission</td>
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<td>DHCS</td>
<td>Department of Health Care Services</td>
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<td>Gold Coast</td>
<td>Gold Coast Health Plan</td>
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<td>PBM</td>
<td>pharmacy benefits manager</td>
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<td>PSAO</td>
<td>Pharmacy Services Administrative Organization</td>
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<td>RFP</td>
<td>request for proposal</td>
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SUMMARY

Gold Coast Health Plan (Gold Coast) oversees the provision of health care services to Medi-Cal beneficiaries in Ventura County, including the provision of pharmacy prescription services. In 2015 Gold Coast developed a request for proposals (RFP) for a new contractor to negotiate with pharmacies and process their prescription reimbursement claims—known as a pharmacy benefits manager (PBM). Gold Coast did a thorough evaluation of the vendors' responses to this RFP and accurately shared its results with the Ventura County Medi-Cal Managed Care Commission (commission), which created and governs Gold Coast. However, rather than selecting the applicant that Gold Coast recommended, the commission instead chose OptumRx, Inc. (OptumRx), largely because its prices were lowest. In its first year, OptumRx made some errors that resulted in it overpaying pharmacies, and some independent pharmacies have complained about OptumRx's low reimbursements. However, we found that the reimbursements align with the State's goals to achieve efficient and reasonable prescription benefits costs and an independent consultant's determination that the reimbursements are reasonable. Our audit came to the following conclusions:

The Commission Chose Its Current PBM Primarily to Address Gold Coast’s High Pharmacy Benefits Costs

Gold Coast initiated its RFP process for a new PBM in response to the Department of Health Care Services' (DHCS) identifying the potential for Gold Coast to achieve reductions in its pharmacy benefits costs in future years based on its assessments of historical costs. According to DHCS, it encourages health plans such as Gold Coast to achieve efficient and reasonable pharmacy benefits costs. Commissioners who voted to award OptumRx the PBM contract believed that OptumRx's proposal would lower Gold Coast's pharmacy benefits costs. However, because the commission did not make clear why it chose to award the PBM contract to OptumRx rather than the vendor that Gold Coast recommended, the commission's selection process lacked transparency.

Gold Coast Could Have Addressed Errors Made by OptumRx Earlier

During its first year as the PBM for Gold Coast, OptumRx made three errors in its processing of pharmacies' prescription reimbursement claims. These errors resulted in OptumRx overpaying thousands of claims by a total of more than $6 million. Although Gold Coast took steps to better understand the cause of the errors, it delayed formally notifying OptumRx that its performance did not comply with contractual requirements and that it must address the source of the errors. Had Gold Coast taken prompt, formal action to address the first error, it might have prevented the subsequent errors from occurring.
Although OptumRx’s Reimbursements May Be Lower Than Those of Some Comparable Health Plans, They Are Reasonable

Shortly after OptumRx began providing services, a number of representatives of independent pharmacies in Gold Coast’s network expressed concerns about the low reimbursements they were receiving for prescriptions they dispensed to Gold Coast beneficiaries. Some pharmacies reported that these low reimbursements were causing them financial hardship, which could lead them to close their businesses. We found that OptumRx generally reimbursed pharmacies significantly less than comparable plans for a selection of medications; however, this result aligns with DHCS’ encouragement of Gold Coast to achieve efficient and reasonable pharmacy benefits costs. Further, when Gold Coast contracted with a consultant to assess OptumRx’s reimbursements, the consultant concluded that OptumRx’s reimbursements were within market value of the reimbursements for health plans in California and nationwide. Although two pharmacies in Gold Coast’s network have closed since OptumRx began providing services, Gold Coast’s beneficiaries have continued to have access to pharmacies within the time and distance standards set in state law. Taking all of these factors into consideration, we conclude that OptumRx’s reimbursements for the period we reviewed were reasonable.

Other Areas We Reviewed

We assessed potential conflicts of interest associated with Gold Coast’s RFP process for selecting a new PBM and the extent to which Gold Coast considered the best interests of pharmacies during its RFP process. We did not identify any conflicts of interest. Further, although neither federal nor state law required Gold Coast to consider pharmacies’ business and financial interests during the RFP process, Gold Coast stated that it considered pharmacy interests in some instances. Specifically, Gold Coast required vendors to describe their processes for addressing pharmacy complaints and appeals related to prescription reimbursements.

Summary of Recommendations

To ensure that the public clearly understands the commission’s decisions, the commission should report its reasoning for awarding contracts or the legal basis, if any, for choosing not to do so.

To ensure that it addresses any significant performance issues by its contractors in a timely manner, Gold Coast should establish a process to immediately require contractors to take necessary corrective action to resolve issues and ensure that they do not recur.

Agency Comments

Gold Coast did not agree with our first recommendation, asserting that the commission is under no legal obligation to provide more information about its contracting decisions, but it did agree to implement our second recommendation.
INTRODUCTION

Background

The Centers for Medicare & Medicaid Services administers the federal Medicaid program that provides medical assistance to certain low-income individuals and families who meet federal and state eligibility requirements. California participates in the federal Medicaid program through its California Medical Assistance Program, known as Medi-Cal, and the Department of Health Care Services (DHCS) is the single state agency responsible for administering Medi-Cal. Medi-Cal provides beneficiaries with a safety net of health care services, including prescription drugs, hospitalization, emergency care, and mental health treatment. As of November 2018, the Medi-Cal program provided services to about 13 million beneficiaries—nearly one-third of Californians. During fiscal year 2018–19, the Governor’s budget allotted DHCS more than $102 billion, of which over $21 billion came from the State’s General Fund.

Medi-Cal Managed Care Models

The State provides Medi-Cal benefits through one of two delivery systems: fee-for-service or managed care. Under fee-for-service, medical providers bill DHCS directly for approved services they provide to Medi-Cal beneficiaries. Under Medi-Cal managed care, DHCS contracts with Medi-Cal managed care health plans (health plans) and pays each a monthly capitation rate (premium)—an amount per person covered—to provide health care to the Medi-Cal beneficiaries who are enrolled in the health plan. Managed care is considered a cost-effective system that emphasizes primary and preventive care. DHCS estimates that more than 80 percent of Medi-Cal beneficiaries receive services under the managed care delivery system, while the remaining beneficiaries receive care under fee-for-service. The State’s significant use of managed care is a result of its focus on shifting beneficiaries out of fee-for-service and into a lower-cost system.

The health plan options available to a beneficiary depend on the county in which the beneficiary resides. Each county participates in one of six Medi-Cal managed care models, which the text box describes: County Organized Health System (COHS), Geographic Managed Care, Two-Plan, Regional, Imperial, and San Benito. Although DHCS has overall responsibility for Medi-Cal, state law identifies counties as the entities responsible for local administration of Medi-Cal. Ventura County participates in Medi-Cal through a COHS Model. Specifically, DHCS contracts with the Gold Coast Health Plan (Gold Coast), which the Ventura County Medi-Cal Managed Care Commission (commission) created.

<table>
<thead>
<tr>
<th>Medi-Cal Managed Care Models Available in California</th>
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<tr>
<td><strong>COHS</strong> — DHCS contracts with a health plan created by the county board of supervisors.</td>
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<tr>
<td><strong>Regional</strong> — DHCS contracts with two commercial plans.</td>
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<tr>
<td><strong>Two-Plan</strong> — DHCS contracts with a county-organized plan and a commercial plan.</td>
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<tr>
<td><strong>Geographic Managed Care</strong> — DHCS contracts with several commercial plans.</td>
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<td><strong>Imperial</strong> — DHCS contracts with two commercial plans in Imperial County, one with county oversight.</td>
</tr>
<tr>
<td><strong>San Benito</strong> — DHCS contracts with one commercial plan in San Benito County.</td>
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Source: DHCS Medi-Cal Managed Care Program Fact Sheet.
The Commission and Gold Coast

In 2009 the Ventura County Board of Supervisors (board) created the commission. In 2011 DHCS began contracting with the commission to administer health care benefits to the 200,000 Medi-Cal beneficiaries who live in Ventura County. As the text box indicates, the commission is a public body of 11 members, including representatives from local health care providers. The commission holds regular public meetings at which it discusses issues such as contractual relationships, employee appointments, and grants.

In 2010 the commission created Gold Coast, a public entity, to oversee the Medi-Cal program in Ventura County and to provide health care services to Medi-Cal beneficiaries. Gold Coast provides many services, including primary care and pharmacy services. Gold Coast manages these services through its staff and two administrative contractors. One contractor oversees Gold Coast’s administrative services, which include processing claims received from medical providers and responding to beneficiary concerns. The other contractor is responsible for administering Gold Coast’s pharmacy benefits. Specifically, Gold Coast provides prescription drugs and associated services to its beneficiaries by contracting with a pharmacy benefits manager (PBM).

Pharmacy Benefits Management at Gold Coast

Under the terms of its contract with Gold Coast, the current PBM, OptumRx, Inc. (OptumRx), processes prescription claims on behalf of Gold Coast, which is a standard practice for both commercial and public health plans. OptumRx manages the administrative and logistical services that make the transactions possible when pharmacies fill prescriptions for beneficiaries. For example, OptumRx establishes contractual relationships with pharmacies and pharmacy services administrative organizations (PSAOs) to set reimbursements for specific medications. When a beneficiary attempts to obtain a medication, the pharmacy submits a claim to OptumRx. If OptumRx verifies that the beneficiary is eligible and the medication is covered by Gold Coast, then OptumRx reimburses the pharmacy for the medication and pays a dispensing fee. Twice each month, Gold Coast reimburses OptumRx for the amount it pays the pharmacies. In part, health plans contract with PBMs because administering pharmacy benefits can be complex and resource-intensive.
As Gold Coast’s PBM, OptumRx contracts with a variety of pharmacies and PSAOs across Ventura County. OptumRx oversees all direct relationships with the pharmacies, while Gold Coast has authority for overseeing OptumRx and its compliance with contract requirements. As Figure 1 indicates, OptumRx has established relationships with large chain pharmacies, such as WalMart and CVS, as well as with independent pharmacies that are not a part of such national chains. In Ventura County, the independent pharmacies generally belong to one of four PSAOs, which serve as intermediaries between the member pharmacies and OptumRx. The PSAOs manage contractual relationships and disputes with OptumRx on behalf of their member pharmacies and therefore are responsible for many of the pharmacies’ financial and business interests. In 2018 Gold Coast’s pharmacy network within Ventura County included 52 independent pharmacies, or 33 percent of the total pharmacies, and 104 chain pharmacies.

Gold Coast requires its PBM to establish a network of pharmacies that provides prescription services for Medi-Cal beneficiaries in compliance with state and federal law. Specifically, state law requires that health plans must establish a network that includes pharmacies within 10 miles or 30 minutes’ driving distance of all beneficiaries. Although this requirement in state law became effective only in 2018, federal law and Gold Coast’s contract with DHCS required Gold Coast to provide adequate access to these services for much longer. To demonstrate compliance with this standard, Gold Coast submits pharmacy network data to DHCS using information that OptumRx provides.

**Governor’s Executive Order Regarding Medi-Cal Pharmacy Services**

In January 2019, the Governor issued an executive order regarding the accessibility and affordability of prescription medications under Medi-Cal. This executive order aims to generate substantial annual savings for the State by transitioning Medi-Cal pharmacy services from managed care to a system in which the State is the single payer for all medications that pharmacies dispense to Medi-Cal beneficiaries. The goal of the executive order is to leverage the State’s purchasing power to obtain better prices on prescription medications for Medi-Cal beneficiaries. To this end, the executive order directs that by July 2019, DHCS review state purchasing initiatives and consider options that will increase the State’s bargaining power for the Medi-Cal program. According to DHCS, it completed this review and submitted it to the Governor. Further, the executive order directs the State to implement bulk purchasing of prescription medications. As a result of this order, the State will likely take on the role of PBM for all Medi-Cal health plans in California, including Gold Coast’s program.
Figure 1
Gold Coast Provides Pharmacy Services to Beneficiaries Through OptumRx

Source: Contracts between Gold Coast and DHCS and between Gold Coast and OptumRx; interviews with Gold Coast; and the U.S. Government Accountability Office’s report titled Prescription Drugs: The Number, Role, and Ownership of PSAOs, January 2013.
The Commission Chose Its Current PBM Primarily to Address Gold Coast’s High Pharmacy Benefits Costs

Key Points

- DHCS encouraged Gold Coast to achieve efficiencies in its pharmacy benefits costs, which contributed to Gold Coast seeking a new PBM that could offer more cost-effective services.

- Although Gold Coast implemented a thorough request for proposal (RFP) process to solicit a new PBM, the commission did not choose the vendor that Gold Coast recommended; instead, it selected the lowest-scoring vendor primarily because this vendor offered the lowest costs. The commission did not publicly disclose the reasons for its decision, thereby limiting its transparency.

Gold Coast Was Justified in Seeking a New PBM to Reduce Costs

As part of its oversight of health plans, DHCS contracts with an actuary to set the premiums it will pay to those health plans. To assist with setting a health plan’s future premiums, the actuary conducts annual assessments of the plan’s historical pharmacy benefits costs to identify any future reductions in costs the health plan could realize with generic medications. In other words, the actuary uses the actual pharmacy benefits costs that a plan paid in a previous year to identify areas where that plan could pay less for pharmacy benefits in a future year, given the expected changes in generic medication costs. The assessment compares the health plan’s pharmacy costs for generic medications to national benchmark prices. According to DHCS, it has historically applied these assessments to generic medications rather than to brand name medications because the focus of the national benchmarks has been on generic medications and because more price variation tends to exist between generic medications. Health plans can monitor these price variations to achieve pharmacy cost efficiencies, when possible.

Through its annual reviews of Gold Coast’s costs, DHCS identified potential reductions in costs that Gold Coast could achieve in the future related to pharmacy benefits. According to DHCS, it encourages health plans, such as Gold Coast, to achieve efficient and reasonable pharmacy benefits costs through its annual process of setting premiums. During DHCS’ annual assessments of costs in calendar years 2012 through 2016, its actuary identified the potential for Gold Coast to achieve reductions in cost in future years based on its assessment of historical costs. This period coincided with management of Gold Coast’s pharmacy benefits by its former PBM, Script Care, Ltd. (Script Care). DHCS’ actuary used the potential reductions it identified during these annual reviews in setting Gold Coast’s annual premiums for
fiscal years 2014–15 through 2018–19. According to Gold Coast’s estimates, DHCS’ actuarial assessments resulted in it receiving nearly $11 million less in premiums than it otherwise would have over these five fiscal years.

In response to the effect that DHCS’ assessments had on its premiums, Gold Coast proposed to the commission in November 2014 that it start a competitive RFP process for a new PBM to ensure that its pharmacy costs were in line with market rates. In its presentation to the commission about its RFP, Gold Coast explained that its contract with Script Care would terminate in June 2016. It also noted that its increased pharmacy benefits costs as a portion of its total health care costs had resulted in increased oversight by DHCS. In addition, Gold Coast specified in its RFP that it was seeking a PBM that would work collaboratively with it to continuously improve beneficiaries’ customer service experience and health status while offering cost-effective solutions related to pharmacy benefits.

The Commission Chose the Lowest-Scoring PBM Rather Than the Vendor That Gold Coast Recommended

To obtain more competitive pricing for its pharmacy benefits, Gold Coast issued an RFP in July 2015 to solicit proposals from PBMs. The RFP reflected Gold Coast’s intention to identify cost-effective solutions for its pharmacy benefits. For instance, the RFP included certain aspects of pricing accountability, such as requiring the vendors to agree to disclose the definition and classification of medications for which Gold Coast would receive the value of the PBM’s negotiated discounts, rebates, credits, or other financial benefits. The RFP also required the vendors to agree to contract terms that specified expectations for performance.

Gold Coast conducted a thorough review of the proposals it received in response to its RFP and included appropriate categories in its review. Gold Coast received responses from three vendors: Magellan Health, Inc. (Magellan); OptumRx; and its then-current PBM, Script Care. Several Gold Coast staff with specialized industry knowledge of pharmacy benefits services and other health care fields were responsible for scoring the proposals. For example, Gold Coast’s director of pharmacy, a registered pharmacist, scored several categories related to the

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The actuary’s annual assessment includes a review of historical calendar year data to determine premiums for the future fiscal years. For example, the actuary used calendar year 2015 data to assess whether Gold Coast could achieve any potential pharmacy benefits cost savings in fiscal year 2017–18. As of May 2019, the actuary had not certified its assessment of calendar year 2017 data for fiscal year 2019–20 premiums.
pharmacy network, while Gold Coast’s procurement officer scored the categories related to contract terms and conditions and the statement of work. Gold Coast divided its evaluation of the proposals into two components. The first component focused on qualitative factors, including factors concerning network access and beneficiary services. The second component related to quantitative factors, including whether the vendor agreed to certain contract terms and conditions, such as a three-year contract and annual contract renewal subject to satisfactory performance thereafter.

We found that Gold Coast generally used reasonable weights when calculating the scores of the proposals and that it accurately presented the results of its review to the commission. As Table 1 shows, Gold Coast identified Magellan as the highest-scoring vendor, with a total score of 96.5. Magellan’s score exceeded that of the lowest-scoring vendor, OptumRx, by more than 10 points. In September 2016, Gold Coast presented these results to the commission for its consideration in deciding which vendor would receive the PBM contract. Based on our review of Gold Coast’s presentation of those results, Gold Coast provided relevant and accurate information to the commissioners for their consideration.

### Table 1
Gold Coast Recommended Awarding the PBM Contract to the Highest-Scoring Applicant

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<tr>
<th>SECTION WEIGHTS</th>
<th>VENDORS’ SCORES</th>
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<tr>
<td></td>
<td>MAGELLAN</td>
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<tr>
<td>Qualitative analysis</td>
<td>45%</td>
</tr>
<tr>
<td>Quantitative analysis</td>
<td>55%</td>
</tr>
<tr>
<td>Overall score</td>
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Source: Gold Coast’s presentation to the commission.

Although Gold Coast recommended that the commission award the PBM contract to Magellan, the commission awarded the contract to the lowest-scoring vendor, OptumRx. After Gold Coast presented the vendor scores to the commission, each of the three vendors made formal presentations to the commission regarding their proposals. Following these presentations and some discussion, the commission adjourned into a closed session to discuss pricing issues; under state law, these pricing issues are not required to be disclosed to the public. Ultimately, as Figure 2 shows, five commission members—each affiliated with Ventura
County—voted in September 2016 to award the PBM contract to OptumRx. The remaining four commission members who were present, including those representing the private hospital system, voted against the decision. Although state law does not require public disclosure of the commission’s discussion regarding the vendors’ pricing, the commission at least should have disclosed its own overall evaluative process for transparency purposes. Instead, we found that the commission’s meeting minutes and an audio recording of the meeting did not include reasoning as to why five of the nine commissioners voted against Gold Coast’s recommendation to award the contract to Magellan.

**Figure 2**
County-Affiliated Commissioners Voted to Award the PBM Provider Contract to OptumRx in September 2016

Source: Commission meeting minutes, selected statements of economic interests, and documentation from Gold Coast.

Note: At the time of the vote, the position of Medi-Cal beneficiary representative was vacant. Consequently, we did not include this position in Figure 2.
Because of the limited information available on the commission’s decision, we interviewed seven of the nine commissioners who were present during the vote. The commissioners who voted in favor of OptumRx and who responded to our requests for an interview stated that they generally believed OptumRx’s presentation was effective and that its proposal furthered the commission’s interests in lowering Gold Coast’s pharmacy benefits costs. For example, according to one commissioner, one of his primary considerations was the vendor’s estimated total costs to manage pharmacy benefits and the resulting cost savings to Gold Coast. Although we found that OptumRx’s proposal did include the lowest overall price, other factors—on several of which it scored poorly—contributed to its overall lower score. The remaining commissioners who voted against OptumRx did so for various reasons. For instance, one commissioner said that he found Gold Coast’s RFP process appropriate and its recommendation to award the contract to Magellan sound. Another stated that she believed Magellan’s proposal was superior to OptumRx’s and that Magellan addressed all pertinent issues well. Gold Coast also stated that it stands behind its RFP process and the resulting recommendation for Magellan. However, because the commission did not make clear in the public portion of the meeting that cost was the primary reason the majority voted to award OptumRx the PBM contract, the commission lacked transparency in its selection process.

Recommendation

To ensure that the public clearly understands the commission’s decisions, the commission should report its reasoning for awarding contracts with adequate detail or the legal basis, if any, for choosing not to do so.

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2 Two of these nine commissioners—the Ventura County Medical Center Health System representative and the county official representative—were no longer commissioners at the time of our audit and did not respond to our requests for an interview. Both of these commissioners voted in favor of OptumRx.
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Gold Coast Could Have Addressed Errors Made by OptumRx Earlier

Key Points

• Gold Coast did not act quickly enough to address an error OptumRx made when reimbursing pharmacies in its first year as the PBM. Had Gold Coast taken immediate action rather than waiting until OptumRx made additional costly mistakes, it might have prevented the subsequent reimbursement errors and avoided nearly $2.8 million in overpayments to pharmacies.

• With the exception of its delay in addressing OptumRx’s reimbursement error, the oversight activities Gold Coast has regularly conducted to assess OptumRx’s performance have been sufficient overall. When these activities have identified minor issues in OptumRx’s performance, Gold Coast has taken appropriate steps to ensure that OptumRx corrected the cause of the issues.

Gold Coast Unnecessarily Delayed Formally Addressing OptumRx’s Errors Reimbursing Pharmacies

Gold Coast unnecessarily delayed addressing reimbursement errors by OptumRx that resulted in a total of more than $6 million in overpayments to pharmacies. Gold Coast’s contract with OptumRx requires the PBM to charge Gold Coast the lowest rate from three pricing lists that are used throughout the pharmaceutical industry: the Average Wholesale Price (AWP) list, the Maximum Allowable Cost (MAC) list, and the Usual & Customary (U&C) list. The text box defines these three lists. Gold Coast’s contract with OptumRx requires OptumRx to process prescription claims that pharmacists submit electronically through its Point of Service system. According to Gold Coast, OptumRx’s practice through the end of 2018 was to reimburse pharmacies every two weeks for the prescriptions they filled, although some pharmacies received reimbursements monthly.

According to Gold Coast, OptumRx made a significant reimbursement error shortly after it began providing services for Gold Coast. This error violated OptumRx’s contract and, according to Gold Coast, led to millions of dollars in overpayments to pharmacies, which OptumRx then had to recover. Specifically, from June 1 to July 24, 2017, OptumRx made the first of several errors—as Figure 3 shows—when it failed to correctly process pharmacies’ reimbursement claims. According to Gold Coast, OptumRx failed to use the MAC pricing list, which frequently

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**Selected Prescription Pricing Lists**

- **AWP**—Prices on this list rarely reflect the true cost to purchasers because of undisclosed discounts. These prices are thought of as *sticker prices*.
- **MAC**—This is a health plan or PBM-established list of reimbursements per individual medication, strength, and dosage, such as 50 cents per 20-mg capsule of fluoxetine.
- **U&C**—This list reflects the prices, without discounts, that individuals without drug coverage would pay at a retail pharmacy. These prices are also known as the *retail or cash prices*.

*Source: Academy of Managed Care.*
Figure 3
OptumRx Committed Multiple Errors Before Gold Coast Took Strong, Formal Action to Correct Them

OptumRx’s Errors

June 1–July 24, 2017:
OptumRx makes the first reimbursement error, resulting in overpayments to pharmacies totaling $3.4 million.*

August 4–September 26, 2017:
OptumRx makes a second reimbursement error, resulting in overpayments of $242,000.

February 7–15, 2018:
OptumRx makes a third reimbursement error, which is similar to the first one, resulting in overpayments totaling $2.5 million.

Gold Coast’s Actions

August 2017:
Gold Coast learns of the first reimbursement error and asks OptumRx to quantify the impact of the error.

November 2017:
Gold Coast learns of the second error and asks OptumRx to identify its cause and quantify the impact of the error.

March 2018:
Gold Coast sends OptumRx a formal notice stating that its performance was in default of its contract and requiring it to submit a corrective action plan. OptumRx submits the plan and recoups overpayments for all three errors.

September 2018:
Gold Coast approves OptumRx’s corrective action plans and closes the findings from the formal notice.

Source: Notice of default from Gold Coast, responses from OptumRx, additional documentation provided by Gold Coast, and interviews with Gold Coast.

* In February 2018, OptumRx identified additional claims affected by its first reimbursement error, which increased the amount of overpayments from $1.9 million to $3.4 million.
contains the lowest reimbursements, in its calculation of the reimbursements, as its contract requires. OptumRx determined from its initial review in July 2017 that the error affected more than 27,000 claims and that it overpaid the pharmacies $1.9 million. Further, in March 2018, OptumRx informed Gold Coast that it had identified about 22,000 additional claims that were affected by this same reimbursement error, amounting to another $1.5 million in overpayments. In total, the first reimbursement error in 2017 resulted in $3.4 million in overpayments.

Although Gold Coast became aware of this error in August 2017, it did not require OptumRx to take formal corrective actions or to implement a process to ensure that a similar error would not occur in the future. Gold Coast stated that in August 2017, after its June 2017 pharmacy benefits costs were much higher than it had anticipated, it asked OptumRx about the issue. In response, OptumRx stated that it had fixed the problem. According to Gold Coast, subsequent invoices indicated that OptumRx had, in fact, addressed the error. However, we expected Gold Coast to require OptumRx to respond more formally, such as through a corrective action plan, which would require OptumRx to provide a detailed explanation and supporting documents of its actions to resolve the issue, to ensure that it did not make similar errors in the future. Gold Coast’s pharmacy director noted that she did not believe the first error warranted a formal corrective action process because it was OptumRx’s first mistake and she had been pleased with OptumRx’s engagement as the PBM up to that point.

Then, from August 4 to September 26, 2017, OptumRx made another, smaller reimbursement error, resulting in additional overpayments to pharmacies. This time, Gold Coast reported that OptumRx used an outdated AWP pricing list when calculating reimbursements, which affected more than 10,000 claims and resulted in OptumRx overpaying claims by $242,000. OptumRx discovered this error when it reviewed the configuration of its pricing system. Although such pricing errors violated its contract with Gold Coast and therefore called for more formal measures, Gold Coast told us it chose again to simply request additional information from OptumRx about the cause of the issue and to ask OptumRx to determine how many pharmacies were affected by the error and by how much. Gold Coast noted that it considered taking more formal action in response to this second error but chose not to, in part because OptumRx was actively working on an analysis that Gold Coast had requested of the cause of the issue.

Only after identifying yet another reimbursement error did Gold Coast issue a formal written notice and require OptumRx to take corrective actions. According to Gold Coast, in February 2018, OptumRx made a similar error to its first by setting its pricing
system to use the AWP pricing list when calculating pharmacies’ reimbursements rather than applying other rates, including the MAC pricing list. This omission led OptumRx to once again overpay pharmacies, this time by $2.5 million. After learning of this error, Gold Coast sent a formal notice to OptumRx in March 2018 that its performance was in default of the contract (default letter). Gold Coast stated in the default letter that the PBM’s performance had been deficient from the inception of its contract. It identified significant defaults by OptumRx, as well as other performance issues, and it provided OptumRx with the opportunity to cure the existing problems.

To address its numerous defaults in performance, Gold Coast required OptumRx to submit a corrective action plan and certain documentation, such as policies and procedures, to ensure that errors in its reimbursements to pharmacies would not recur. Gold Coast also required OptumRx to develop new performance guarantees, including specific monetary penalties, to address errors in the configuration of its pricing system that might result in overpayments or underpayments to pharmacies. In total, OptumRx’s reimbursement errors resulted in more than $6 million in overpayments, which it recovered from the pharmacies from November 2017 through April 2018. Because Gold Coast relies on its PBM for its specialized expertise in setting reimbursements and managing the pharmacy benefits process, OptumRx’s failure to sufficiently and accurately perform these duties was significant.

Had Gold Coast taken appropriate action in August 2017 when it identified the first error, it might have prevented the subsequent errors from occurring. After the first error, Gold Coast could have issued a default letter and required OptumRx to submit a formal corrective action plan. Gold Coast could have required OptumRx to provide its policies and procedures—as its default letter ultimately did require—detailing how it would ensure that it did not make errors in reimbursements to pharmacies in the future. OptumRx, Gold Coast, or both might have then identified the weaknesses in the policies and procedures that contributed to the subsequent errors and overpayments. Gold Coast believes that its response was timely, citing the significant amount of analysis required to understand the full impact and financial implications of the first two errors. Gold Coast stated that it worked with OptumRx’s leadership from the time it discovered the errors in order to understand, correct, and prevent future errors. However, Gold Coast was unable to provide us with documentation to support these statements.
Gold Coast’s Oversight Activities of OptumRx’s Performance Have Generally Been Sufficient and Have Identified Minor Performance Issues

In addition to its specific actions related to OptumRx’s reimbursement errors, Gold Coast has generally provided sufficient oversight of OptumRx through multiple means. For example, Gold Coast requires OptumRx to provide quarterly performance reports—as Table 2 shows—in which OptumRx must describe its performance on key contract terms, such as annually conducting satisfaction surveys of beneficiaries who have had recent experiences with pharmacy services. These key contract terms, known as performance standards, are a set of 35 benchmarks that OptumRx must meet or risk incurring monetary penalties from Gold Coast. Gold Coast stated that it generally verifies the information that OptumRx reports by informally reviewing existing information it collects as part of its oversight. For example, Gold Coast maintains an online log that tracks the resolution of specific account management issues between it and OptumRx, including OptumRx’s speed in resolving each issue.

Table 2
Gold Coast’s Oversight Activities Have Identified Some Concerns Regarding OptumRx’s Performance

<table>
<thead>
<tr>
<th>TYPE OF ACTION</th>
<th>DESCRIPTION</th>
<th>PERFORMANCE ISSUES IDENTIFIED</th>
<th>EXAMPLES OF PERFORMANCE ISSUES IDENTIFIED</th>
<th>DID GOLD COAST HAVE APPROPRIATE FOLLOW-UP?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of quarterly performance reports</td>
<td>Reviewed OptumRx’s quarterly performance on a list of performance standards.</td>
<td>Yes</td>
<td>Had less than 99.98 percent system availability from September to November 2017.</td>
<td>Yes</td>
</tr>
<tr>
<td>Desk audit</td>
<td>Conducted an audit of OptumRx’s ability to perform certain activities, such as verifying pharmacist credentials.</td>
<td>Yes</td>
<td>Failed to ensure the following: • All staff received mandatory fraud, waste, and abuse training. • Credentialing policies included provisions for preventing and monitoring for discrimination.</td>
<td>Yes. As of June 2019, Gold Coast’s follow-up was ongoing.</td>
</tr>
<tr>
<td>Appeals audit</td>
<td>Completed an audit of the appeals process, including a review of a sample of reimbursement appeals submitted by pharmacies.</td>
<td>No</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Review of requests for medications that require OptumRx’s prior authorization</td>
<td>Conducted daily reviews of OptumRx’s decisions on prior authorization requests.</td>
<td>Yes</td>
<td>Gold Coast disagreed with OptumRx’s decisions on four of the 17 prior authorization requests we reviewed.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Review of Gold Coast’s oversight activities and related documentation and interviews of Gold Coast staff.
As of May 2019, OptumRx had provided—and Gold Coast had reviewed—five quarterly performance reports since it began providing services in June 2017. The quarterly performance reports identified only one performance standard that OptumRx failed to meet out of more than 200. Specifically, OptumRx reported that from September 2017 through November 2017, its claims processing system was available 99.69 percent of the time rather than 99.98 percent, as its contract requires. In response, Gold Coast assessed OptumRx a $10,000 penalty. In its two most recent quarterly performance reports available as of May 2019—which covered March through August 2018—OptumRx reported that it did not miss any performance standards. Gold Coast agreed that OptumRx had generally met its expectations during this time.

The five quarterly performance reports that Gold Coast reviewed identified only one performance standard that OptumRx failed to meet out of more than 200.

In addition to the performance standards on which OptumRx reports quarterly, Gold Coast incorporated four performance standards into its contract related to the implementation of OptumRx’s services. Although OptumRx met three of these standards, it failed to meet the fourth standard related to Gold Coast’s overall satisfaction with its implementation of its services. Specifically, all of the Gold Coast staff surveyed were either dissatisfied or very dissatisfied with its performance. As a consequence, OptumRx paid Gold Coast a $250,000 penalty in February 2018.

Another of Gold Coast’s oversight activities was a desk audit it conducted in 2018 of OptumRx’s ability to perform certain delegated activities across five categories. This audit included a review of OptumRx’s procedures related to the verification of pharmacy credentials and the privacy and security of health information. The desk audit found that OptumRx failed to ensure that its credentialing process—in which it verifies that a pharmacy is properly licensed and has adequate insurance, among other things—including policies describing that OptumRx does not base credentialing decisions on an applicant’s race, ethnicity, gender, age, sexual orientation, or patient type. In addition, the audit found that OptumRx failed to ensure that it has a process for preventing and monitoring discriminatory practices. Finally, Gold Coast also identified certain deficiencies in OptumRx’s compliance with all
of the regulatory requirements the audit reviewed; for example, OptumRx had not maintained records demonstrating that all employees received required fraud, waste, and abuse training.

In response to the findings of this desk audit, Gold Coast required OptumRx to submit corrective action plans in March 2019, along with supporting documentation to demonstrate that it had addressed the issues. For two of the five audit finding categories—including one related to providing fraud, waste, and abuse training—Gold Coast ensured that OptumRx had properly addressed the findings, and it subsequently closed the corrective action plans. According to Gold Coast, as of June 2019, Gold Coast has not yet received from OptumRx the documentation necessary to be able to close the remaining three open corrective action plans.

In addition, Gold Coast conducted an appeals audit of OptumRx’s compliance with a state law concerning transparency in pharmacy reimbursements. Beginning in January 2016, state law has allowed pharmacies to appeal certain reimbursements they receive from PBMs. Gold Coast engaged an external consultant to audit OptumRx’s appeals process to ensure its compliance with state law for the period from October 2017 through March 2018. In conducting the audit, the consultant focused on 25 appeals from pharmacies. The consultant concluded that OptumRx’s appeals process, including its policies and procedures and its timeliness in reaching decisions on appeals, complied with the new state law.

Gold Coast also daily reviews specific decisions by OptumRx on prior authorization requests to ensure that those decisions are appropriate and that Gold Coast’s beneficiaries are receiving coverage for medications they need. Gold Coast maintains a list of medications that it covers and any restrictions on those medications. Medications that are not included on this listing or that are listed with restrictions are available to beneficiaries if they are medically necessary. For these types of medications, the beneficiary or the prescribing provider must submit a request to OptumRx, which then follows specified procedures to determine whether to approve—and cover—the medication or to deny the request. For example, for Gold Coast to approve coverage for a prescription for Rosuvastatin, a medication for reducing cholesterol, the beneficiary’s prescribing provider must submit documentation indicating that the beneficiary has tried other medications in the same class and failed to see improvement.

To gain assurance that OptumRx is making appropriate determinations on whether to cover medications requested through this prior authorization process, Gold Coast regularly reviews a selection of OptumRx’s coverage decisions. Specifically, Gold Coast’s policy requires it to conduct daily reviews of
10 percent of the prior authorization requests that OptumRx
approves and of all of the requests that it denies. Through these
reviews, Gold Coast determined that OptumRx did not always
make the correct decisions. However, our testing of the prior
authorization review process indicates that Gold Coast properly
ensured that OptumRx reversed its incorrect decisions so that
beneficiaries could receive needed medications.

Recommendation

To ensure that it addresses any significant performance issues by
its contractors in a timely manner, Gold Coast should establish
a process to immediately require contractors to take necessary
corrective action to resolve such issues and ensure that they do not
recur. This process should include deadlines for implementing the
corrective action and the steps Gold Coast must take to ensure that
the contractor has implemented the action as directed.
Although OptumRx’s Reimbursements May Be Lower Than Those of Some Comparable Health Plans, They Are Reasonable

Key Points

- Some pharmacies in the Gold Coast network have raised concerns about OptumRx’s low reimbursements.

- We found that OptumRx’s reimbursements for a selection of medications were generally significantly less than the reimbursements of comparable health plans in California. However, these lower reimbursements align with Gold Coast’s intention to reduce its pharmacy benefits costs, and Gold Coast’s consultant’s assessment found that they were within market rates. Taking these factors into consideration, we conclude that OptumRx’s reimbursements for the period we reviewed were reasonable.

- Gold Coast’s beneficiaries continue to have adequate access to pharmacy services, as state and federal laws require.

Some Pharmacists Have Expressed Significant Concerns Regarding OptumRx’s Low Reimbursements

Shortly after OptumRx began serving as Gold Coast’s PBM, representatives of a number of independent pharmacies expressed concerns about OptumRx’s low reimbursements for prescriptions. Specifically, Gold Coast stated that pharmacists contacted it regarding OptumRx’s low reimbursements as early as June 2017—the first month that OptumRx began to manage pharmacy services. In addition, representatives of some independent pharmacies attended commission meetings to publicly voice their concerns about the low reimbursements, and several raised concerns with DHCS. In an attempt to remedy issues between OptumRx and these independent pharmacies, the commission directed OptumRx to meet with pharmacy owners to understand and resolve their concerns individually, and it requested that Gold Coast staff oversee the process. In these meetings, some pharmacy owners indicated that the low reimbursements were causing them financial hardship and might cause them to close their businesses.

The timing and nature of these complaints correlate with the pharmacies submitting a significantly high number of appeals regarding OptumRx’s reimbursements. In fact, the pharmacists appealed tens of thousands of OptumRx’s reimbursements, primarily because they believed that the reimbursements were too low. State law requires PBMs to have a clearly defined process for contracting pharmacies to appeal reimbursements for drugs on the MAC list under certain circumstances. For example, state law allows pharmacists to appeal the reimbursements they receive from PBMs if the MAC list prices are less than the cost of purchasing the medications from a national or regional wholesaler. To comply with this provision
of state law, OptumRx’s process requires pharmacies or PSAOs to complete and email appeals, using a template, within 30 days from receipt of the reimbursements they wish to appeal. During the 19-month period from June 2017 through December 2018, OptumRx’s data show that pharmacies within Gold Coast’s network and their PSAOs submitted a total of about 107,000 appeals. In contrast, pharmacies submitted only 65 appeals through Script Care from January 2016 through May 2017.³ The pharmacies’ dissatisfaction with OptumRx was likely exacerbated by the PBM’s reimbursement errors, which we previously discuss.

Gold Coast has taken some steps to address these concerns. In April 2018, Gold Coast and the commission received a final report from an external consultant with which Gold Coast had contracted to assess OptumRx’s reimbursements, which we discuss further in the next section. During a commission meeting, the consultant reported that OptumRx’s reimbursements were within market value. From May 2018 through April 2019, the number of complaints pharmacists made during commission meetings decreased from an average of five per commission meeting to fewer than one per meeting. Further, the number of pharmacy appeals of OptumRx’s reimbursements has decreased from an average of about 9,000 per month from June 2017 through January 2018 to 3,000 per month from February 2018 through April 2019.

However, 3,000 appeals is still significantly higher than the number of appeals pharmacists submitted under Script Care and a lawsuit filed by independent pharmacies is ongoing. Specifically, in July 2018, some independent pharmacies filed a lawsuit against OptumRx and their PSAOs—which negotiate on their behalf with OptumRx—challenging the reimbursements they were receiving. As of April 2019, the superior court had paused the court proceeding, pending completion of arbitration. The continued high number of appeals, as well as this lawsuit, indicate that some pharmacists are still dissatisfied with the reimbursements OptumRx is providing.

OptumRx Generally Reimbursed Pharmacies Less Than Comparable Health Plans Did, Which Aligns With Gold Coast’s Efforts to Reduce Pharmacy Costs

For the majority of a selection of medications, OptumRx reimbursed pharmacies in Gold Coast’s network significantly less than comparable health plans in California reimbursed their pharmacies.

³ The state law that mandates the establishment of an appeals process for pharmacies became effective on January 1, 2016.
We compared the amounts OptumRx reimbursed pharmacies during June 2018 for a selection of nine medications to the amounts reimbursed by PBMs at three similar health plans in California that also serve Medi-Cal beneficiaries. We selected a mix of high-cost medications, commonly prescribed medications, and medications that certain pharmacists specifically named when expressing concerns about low reimbursements. Table 3 presents this comparison, which includes both independent and chain pharmacies that received reimbursements from the health plans we reviewed. As the table shows, for six of the nine medications, OptumRx’s reimbursements were at least 51 percent less than the reimbursements that the comparison health plans paid. However, as we explain previously, this result aligns with DHCS’ encouraging Gold Coast to achieve efficient and reasonable pharmacy benefits costs and with the commission’s decision to hire OptumRx as its PBM.

Table 3
For the Medications We Reviewed, OptumRx Frequenty Reimbursed Pharmacies Significantly Less Than Comparable Health Plans Did in June 2018

<table>
<thead>
<tr>
<th>SELECTED MEDICATIONS</th>
<th>OptumRx’s Reimbursements Compared to Those Paid by …</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLAN 1</td>
</tr>
<tr>
<td>1 Acyclovir</td>
<td></td>
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<tr>
<td>2 Albuterol sulfate</td>
<td></td>
</tr>
<tr>
<td>3 Cephalexin</td>
<td></td>
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<tr>
<td>4 Cosentyx</td>
<td></td>
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<tr>
<td>5 Docusate sodium</td>
<td></td>
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<tr>
<td>6 Harvoni</td>
<td></td>
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<tr>
<td>7 Januvia</td>
<td></td>
</tr>
<tr>
<td>8 Loratadine</td>
<td></td>
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<tr>
<td>9 Metformin HCL</td>
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</table>

LEGEND: OptumRx’s Reimbursements Were …

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<tr>
<th></th>
<th>at least 51% less</th>
<th>26–50% less</th>
<th>0–25% less</th>
<th>1–25% more</th>
<th>at least 26% more</th>
</tr>
</thead>
</table>

Source: Analysis of reimbursement claims data provided by DHCS.

* At the time DHCS provided us with reimbursement claims data for June 2018, Plan 3 had not reported any prescriptions filled by pharmacies for this medication.

When we narrowed the analysis in Table 3 to focus only on the reimbursements that independent pharmacies received, we found similar but less severe results. As we describe previously,
independent pharmacies—not chain pharmacies—raised concerns about OptumRx’s reimbursements and submitted nearly all of the appeals that OptumRx had received through April 2019. Although we attempted to review the same nine medications listed in Table 3, we found that independent pharmacies in Gold Coast’s network filled prescriptions for only six of the nine during our review period. As a result, we assessed the reimbursements that independent pharmacies received for these six medications. OptumRx’s reimbursements to independent pharmacies were generally higher than the amounts it reimbursed chain pharmacies.

When we asked Gold Coast about the results of our analysis, it stated that our review could be misleading because it reflects only a snapshot of a small piece of OptumRx’s total pharmacy reimbursements. Gold Coast stated that in June 2018, its Medi-Cal beneficiaries filled more than 135,000 prescriptions that represented over 2,200 individual drugs. Gold Coast stated that an analysis of all of the prescription reimbursements for this period would reflect a much smaller difference between its reimbursements and those of the other plans we reviewed. In addition, Gold Coast asserted that, as required by its contract with OptumRx, its pharmacies receive 100 percent of the amount that Gold Coast pays to OptumRx for each prescription, but that the other plans we reviewed may not follow this same practice. Notwithstanding Gold Coast’s assertions, our assessment indicates that for a majority of the medications we reviewed, OptumRx’s reimbursements to pharmacies were significantly less than those of other health plans.

Further, although we included only nine medications in our review, we conducted additional analysis to assess how OptumRx’s reimbursements compare to those of other health plans through their MAC lists and found similar results. We obtained MAC lists for the same three health plans in California, and to expand the scope of our review, we also obtained the MAC list for a fourth health plan. MAC lists typically reflect the maximum amount a plan will pay for generic medications and for brand name medications that have generic versions available. For this comparison, we selected a mix of commonly prescribed medications, medications that certain pharmacies named when raising concerns about low reimbursements, and medications that pharmacies in Gold Coast’s network most commonly appealed. As Table 4 shows, our comparison of the MAC lists showed that OptumRx’s reimbursements for selected medications were generally lower than those of three of the four similar health plans. The fourth health plan had even lower reimbursements on its MAC list than OptumRx’s for nine of the 10 medications. Thus, the reimbursements on OptumRx’s MAC list, although generally lower than similar health plans, were not always the lowest of the California health plans we reviewed.
For the Medications We Reviewed, OptumRx’s MAC Reimbursements Were Generally Lower Than Those of Comparable Plans

<table>
<thead>
<tr>
<th>SELECTED MEDICATIONS</th>
<th>PLAN 1</th>
<th>PLAN 2</th>
<th>PLAN 3</th>
<th>PLAN 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Acyclovir</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2 Albuterol sulfate</td>
<td></td>
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<tr>
<td>3 Amoxicillin</td>
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<tr>
<td>4 Cephalexin</td>
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<tr>
<td>5 Fluticasone proprionate</td>
<td></td>
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<tr>
<td>6 Hydrochlorothiazide</td>
<td></td>
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<td></td>
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<tr>
<td>7 Loratadine</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>8 Metformin HCL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Promethazine DM</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Tramadol HCL</td>
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</table>

**LEGEND:**

<table>
<thead>
<tr>
<th>OptumRx’s MAC Reimbursements Were ...</th>
<th>at least 51% less</th>
<th>26–50% less</th>
<th>0–25% less</th>
<th>1–25% more</th>
<th>at least 26% more</th>
</tr>
</thead>
</table>

Source: Analysis of MAC lists provided by DHCS and obtained from Gold Coast.

Finally, as we note earlier, Gold Coast contracted with a consultant to conduct an assessment of OptumRx’s reimbursements from June 2017 through February 2018. The consultant’s conclusions generally reflect the results of our analysis of reimbursements, and its methodology appears reasonable. Gold Coast directed the consultant to compare OptumRx’s actual reimbursements to those of an unspecified number of other Medi-Cal health plans and a comparable national health plan. The consultant’s assessment included comparisons across different classes of medications, such as brand name and generic retail medications, medications available by mail, and medications for which beneficiaries can obtain a 90-day supply. Across these different classes of medications, the consultant compared OptumRx’s reimbursements to those of health plans operating in California. Although it concluded that OptumRx’s reimbursements were lower for some of these classes of medications, the consultant reported in a presentation to the commission that OptumRx’s reimbursements overall were within market value of the consultant’s proprietary information on health plans both in California and nationwide. Further, the consultant found that the terms of Gold Coast’s contract with OptumRx related to prescription pricing were within industry standards and that Gold Coast’s dispensing fees—amounts paid to pharmacies to
compensate them for their services—were within current industry standards. Based on the results of the consultant’s assessment as well as our own comparison, we conclude that OptumRx’s reimbursements for the period we reviewed, while lower than those of other plans, were reasonable.

**Gold Coast’s Pharmacy Network Continues to Provide Beneficiaries With Adequate Access to Pharmacy Services**

OptumRx’s lower reimbursements have not had a negative impact on beneficiaries’ access to pharmacy services. Federal law requires health plans to maintain a sufficient number, mix, and geographic distribution of providers of services, and it requires California to develop time and distance standards for pharmacy services. Additionally, state law requires health plans to ensure that beneficiaries have access to pharmacy services within 10 miles or 30 minutes’ driving distance from their places of residence. To ensure that a health plan’s pharmacy network meets these standards, in 2018 DHCS began requiring health plans to annually assess their networks and report the results to DHCS. To conduct this assessment, Gold Coast requires OptumRx to evaluate the network’s adequacy. OptumRx uses computer software to cross-reference the residences of Gold Coast’s beneficiaries with the locations of the nearest pharmacies. Gold Coast then submits these results to DHCS. Gold Coast’s submissions for 2018 and 2019—after OptumRx began managing its pharmacy benefits—reported that nearly all of its beneficiaries had access to a pharmacy within 10 miles and that all of its beneficiaries had access to a pharmacy within a 30-minute driving distance from their residences.

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**OptumRx’s lower reimbursements have not had a negative impact on beneficiaries’ access to pharmacy services.**

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In response to the concerns pharmacists had raised about the potential financial impact of OptumRx’s lower reimbursements on their businesses, Gold Coast explained that it increased its efforts to monitor changes to its pharmacy network. Specifically, Gold Coast stated that it informally monitors its pharmacy network monthly by reviewing OptumRx’s reimbursement claims data. Gold Coast indicated that, in conducting this review, it verifies the number of pharmacies within its network that are submitting claims for services to beneficiaries. Additionally, Gold Coast explained that in
August 2018, it conducted its own assessment of the impact to its beneficiaries if all independent pharmacies were to shut down and found that all independent pharmacies in its network at that time were located within five miles of chain pharmacies. Gold Coast informed us that it is aware of two pharmacy closures in its pharmacy network since OptumRx began providing pharmacy benefits services. We found that these closures did not affect beneficiary access to pharmacy services. In both instances, nearby chain pharmacies took on the beneficiaries from the independent pharmacies, according to Gold Coast.

To assess whether beneficiaries have raised concerns regarding access to pharmacy services, we reviewed beneficiary grievances and found that none related to inadequacies in Gold Coast’s pharmacy network. Gold Coast has an established process that is easily accessible and described on its website for beneficiaries to submit grievances about health care benefits in general. From June 2017 through February 2019, Gold Coast received six grievances related to pharmacy services. None of these grievances reflected concerns about geographic access to pharmacy services or other difficulties related to filling prescriptions; instead, they generally related to other concerns, such as disputes over covered services. The lack of beneficiary grievances regarding access to pharmacy services is another indicator that Gold Coast’s pharmacy network is adequate.
OTHER AREAS WE REVIEWED

To address the audit objectives approved by the Joint Legislative Audit Committee (Audit Committee), we looked at two other issues. Specifically, we assessed any potential conflicts of interest associated with the RFP process for Gold Coast’s new PBM. We also assessed the extent to which Gold Coast considered pharmacies’ best interests—which we determined were their financial and business interests—when conducting its RFP process. Table 5 shows the results of our review of these areas.

Table 5
Other Areas Reviewed as Part of This Audit

<table>
<thead>
<tr>
<th>Potential Conflicts of Interest Delayed Gold Coast’s RFP Process</th>
</tr>
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<tbody>
<tr>
<td>Two potential conflicts of interest significantly delayed Gold Coast’s completion of the RFP process, both of which were unrelated to OptumRx. During its first attempt to identify a new PBM, Gold Coast contracted with a consultant in November 2014 for assistance. However, Gold Coast terminated this first RFP process because the consultant may have had a business relationship with one of the responding vendors. We believe that Gold Coast’s termination of this process was prudent. After initiating a second RFP process in November 2015, Gold Coast discovered in May 2016 that its chief executive officer had a previous financial investment in one of the PBMs under consideration. The commission terminated this second RFP process out of an abundance of caution. Finally, with increased legal oversight, Gold Coast initiated a third RFP process in June 2016 that resulted in the commission selecting OptumRx as its PBM in September 2016 and awarding the PBM contract in November 2016. Although the entire RFP process took more than 14 months, Gold Coast was able to continue to provide prescription benefits to its beneficiaries without interruption throughout the procurement process because it was able to extend its contract with its previous PBM.</td>
</tr>
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</table>

We also reviewed whether any individuals involved in the RFP process or final selection of the PBM had potential conflicts of interest, and we did not identify any. For example, we reviewed statements of economic interests filed by the commissioners and found they had no conflicts of interest related to the three vendors who responded to the final RFP. We also reviewed statements each of the vendors filed in response to the RFP’s requirement that they list any potential conflicts of interest related to any of the commissioners, and we found no conflicts between OptumRx and the commissioners. Finally, we reviewed the statements of economic interests filed by Gold Coast staff members who were responsible for scoring each of the vendor’s responses to the RFP, and we did not identify any potential conflicts of interest.

<table>
<thead>
<tr>
<th>Gold Coast Was Not Obligated to Consider the Pharmacies’ Financial and Business Interests During the RFP Process</th>
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<tr>
<td>Neither federal nor state law governing Medi-Cal require health plans, including Gold Coast, to consider pharmacies’ financial or business interests when selecting PBMs. Gold Coast explained that its selection process focused on member beneficiaries’ network access and coverage, as well as their access to existing pharmacies. Gold Coast stated that it also conducted an RFP process to help ensure that its pharmacy costs were in line with market rates and responsive to the DHCS actuaries’ findings we discuss previously. It did not specifically consider the financial effects that choosing a particular PBM might have on pharmacies when drafting its RFP or when evaluating the vendors’ responses. Nonetheless, Gold Coast stated that it did factor other pharmacy interests into its RFP process, such as requiring the vendors to describe their processes for addressing pharmacy complaints and appeals regarding prescription reimbursements.</td>
</tr>
</tbody>
</table>
We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
California State Auditor

Date: August 15, 2019
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APPENDIX

Scope and Methodology

The Audit Committee requested that the California State Auditor conduct an audit of Gold Coast to determine whether it was appropriately overseeing its contracted PBM. Also, we assessed the RFP process and the decision the commissioners made to award the contract to OptumRx. In addition, we reviewed DHCS’ oversight of Gold Coast and its PBM, and we evaluated Gold Coast’s role in setting reimbursements to pharmacies. The table below lists the objectives that the Audit Committee approved and the methods we used to address them.

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<th>AUDIT OBJECTIVE</th>
<th>METHOD</th>
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<td>1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.</td>
<td>Reviewed relevant laws, rules, regulations, and Gold Coast’s policies and procedures related to reimbursements to pharmacies and oversight of PBMs.</td>
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<td>2 Assess the roles and responsibilities of any relevant state agencies, including DHCS, in overseeing Gold Coast’s responsibilities relating to its contracted PBM.</td>
<td>Determined the extent of DHCS’ oversight by reviewing its audits of Gold Coast and its policies and procedures related to oversight of its PBM.</td>
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<td>3 Analyze Gold Coast’s RFP process that led to it awarding a contract in 2016 to OptumRx to manage prescription drug benefits for its members to determine, to the extent possible, the following:</td>
<td>Interviewed Gold Coast about the considerations it made for pharmacies and beneficiaries in its RFP process and reviewed documentation associated with those considerations.</td>
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<td>a. Whether Gold Coast executed its contract with OptumRx with the best interests of its contracted pharmacies and member beneficiaries in mind.</td>
<td>• Determined whether Gold Coast presented accurate and relevant information for the commissioners to review during the RFP process by reviewing Gold Coast’s presentation to the commission of the results of the RFP process and the documents the commission considered when making its decision to award the PBM contract to OptumRx.</td>
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<td>b. Whether Gold Coast presented the most accurate and relevant information for the commissioners to consider when voting on the contract.</td>
<td>• Verified the accuracy of the scores and other information that Gold Coast presented to the commission.</td>
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<td>• Reviewed the scoring criteria in the RFP to determine whether Gold Coast included the most relevant factors, such as network access, and whether those factors were appropriately weighted.</td>
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<td>• Listened to audio recordings and reviewed minutes of the meeting during which the commission selected a PBM.</td>
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<td>• Interviewed the commissioners about why they voted for or against OptumRx to become Gold Coast’s PBM.</td>
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| 4 Determine whether Gold Coast has sufficient oversight procedures in place to ensure that its subcontractor for managing prescription drug benefits complies with laws and regulations relevant to reimbursements to pharmacies. | • Identified state laws and regulations applicable to PBMs in relation to reimbursements to pharmacies, including laws requiring PBMs to maintain a process for pharmacies to appeal reimbursements.  
• Interviewed Gold Coast about its oversight of OptumRx's reimbursement processes and obtained associated documentation.  
• Reviewed reimbursement appeals allowed under state law to determine their volume and compared the number filed with OptumRx to those filed with Gold Coast's former PBM, Script Care.  
• Ensured that OptumRx responded adequately to pharmacists' concerns by reviewing the one grievance from a pharmacy that OptumRx received in 2018. This grievance was not related to reimbursements to pharmacies or OptumRx's performance. |
| 5 Evaluate whether Gold Coast's policies, practices, and processes for establishing reimbursement rates for contracted pharmacies through its subcontractor are reasonable and appropriate. To the extent they are not reasonable or appropriate, determine what responsibilities, if any, fall on Gold Coast, DHCS, or other state agencies to address the issue. | • Reviewed laws and regulations to identify whether any responsibility falls on Gold Coast, DHCS, or other state entities to oversee reimbursements that PBMs pay pharmacies.  
• Interviewed DHCS to determine whether it expects health plans to assess or oversee reimbursements for contracted pharmacies.  
• Interviewed Gold Coast to determine the level of oversight it has over reimbursements to pharmacies. |
| 6 Assess, to the extent possible, how Gold Coast and OptumRx's reimbursements to contracted pharmacies compare to reimbursements by similarly situated Medi-Cal managed care organizations and their PBMs for similar drugs. | • Reviewed Gold Coast's consultant's assessment of OptumRx's reimbursements to identify whether the consultant's methodology was sound and whether the consultant concluded the reimbursements were reasonable.  
• Reviewed reimbursement claims data that DHCS provided for Gold Coast and three similar health plans for a selection of medications. We selected data from June 2018 to compare OptumRx's reimbursements to similar health plans' reimbursements. We used the results of this review to determine whether OptumRx's reimbursements were higher or lower than those of other plans.  
• Reviewed MAC lists for Gold Coast and four similar health plans for a selection of medications to assess whether OptumRx's maximum allowable costs are comparable to other health plans. |
| 7 Review and assess any other issues that are significant to the audit. | • Reviewed statements of economic interests and conflict-of-interest statements for Gold Coast employees involved in the second and third RFP processes, as well as for the commissioners present when the commission awarded the contract to OptumRx.  
• Determined whether there was any significant impact to services for beneficiaries by obtaining documentation related to the two pharmacy closures reported to have occurred since OptumRx became Gold Coast's PBM. |

Source: Analysis of the Audit Committee's audit request number 2018-124, as well as information and documentation identified in the table column titled Method.
Assessment of Data Reliability

The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. In performing this audit, we relied on electronic data from June 2018 that DHCS provided from its Management Information System/Decision Support System data warehouse to compare for a selection of medications the reimbursements under Gold Coast to those of other similar health plans that also serve Medi-Cal beneficiaries. To evaluate these data, we performed logic testing of key data elements, and we interviewed an agency official knowledgeable about the data. Because DHCS’ database uses a paperless system, we were unable to assess the completeness or accuracy of these data. As a result, we found the data to be of undetermined reliability for our purposes. However, to gain some assurance about the reliability of the reimbursement claims data, we compared the reimbursement claims data for selected medications from DHCS to MAC lists of other similar health plans to ensure that the plans’ reimbursements according to the claims data were equal to or less than the amounts identified in the MAC lists. We did not identify any significant issues.

In addition, Gold Coast provided us with data regarding the beneficiary grievances it received from June 2017 through February 2019. We reviewed these data to identify whether Gold Coast received any beneficiary grievances related to access to covered pharmacy services and to assess whether Gold Coast’s responses to the grievances were adequate. Gold Coast also provided its prior authorization review spreadsheets for the period from June 2017 through December 2018. From these data, we reviewed a selection of OptumRx’s decisions on prior authorization requests to assess the adequacy of Gold Coast’s oversight. To evaluate these data, we performed logic testing of key data elements, and we interviewed agency officials knowledgeable about the data. We were unable to complete accuracy or completeness testing on the member grievance data because the system is primarily paperless. We also did not complete accuracy or completeness testing on the prior authorization spreadsheets because the system is primarily paperless and the volume of prior authorizations made these tests cost-prohibitive. Therefore, for both systems, we found the data to be of undetermined reliability for our audit purposes. Although these determinations may affect the precision of some of the numbers we present, there is sufficient evidence in total to support our findings, conclusions, and recommendations.
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July 8, 2019

Ms. Elaine M. Howle  
California State Auditor  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814

Dear Ms. Howle:

The California Department of Health Care Services (DHCS) hereby confirms receipt of the California State Auditor’s (CSA) draft report entitled, Gold Coast Health Plan: Its Reimbursements to Pharmacies Are Reasonable, but Its Pharmacy Benefits Manager Did Not Always Process Claims Correctly. The CSA conducted this audit and issued no findings or recommendations for DHCS.

DHCS appreciates the work performed by CSA. If you have any questions, please contact Nicole Jacot, External Audit Coordination Manager, at (916) 713-8812.

Sincerely,

[Signature]

Jennifer Kent  
Director
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July 9, 2019

Ms. Elaine M. Howle
State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Response to California State Auditor's Draft Report: Gold Coast Health Plan: Its Reimbursements to Pharmacies are Reasonable, but Its Pharmacy Benefits Manager Did Not Always Process Claims Correctly

Dear Ms. Howle:

Gold Coast Health Plan (GCHP) appreciates the work performed by the California State Auditor (CSA). Enclosed here is GCHP’s response to the recommendations stated in the draft report, titled "Gold Coast Health Plan: Its Reimbursements to Pharmacies are Reasonable, but Its Pharmacy Benefits Manager Did Not Always Process Claims Correctly".

If you have any questions, please contact GCHP’s Chief Compliance Officer, Brandy Armenta at (805) 437-5660 or barmenta@goldchp.org.

Sincerely,

Dale Villani
Chief Executive Officer

Enclosure
Gold Coast Health Plan’s Response to CSA Audit 2018-124

Gold Coast Health Plan: Its Reimbursements to Pharmacies are Reasonable but Its Pharmacy Benefits Manager Did Not Always Pay Claims Correctly

**Recommendation #1:** To ensure that the public clearly understands the commission’s decision, the commission should report its reasoning for awarding contracts or the legal basis, if any, for choosing not to do so.

**GCHP’s Response:**

GCHP values transparency and understands some actions taken may require formal findings by the commission as a whole. Many contract awards, however, do not require formal findings. For example, the award of the pharmacy benefit manager contract discussed in the report did not require formal findings. In most circumstances, California law does not require commissioners to disclose their own subjective motivations or mental processes. This is called the deliberative process privilege and the recommendation should recognize this privilege.

**Recommendation #2:** To ensure that it addresses any significant performance issues by its contractors in a timely manner, Gold Coast should establish a process to immediately require contractors to take necessary corrective action to resolve issues and ensure that they do not recur.

**GCHP’s Response:**

GCHP supports as a best practice the prompt identification of any deficiency and the formal request for a corrective action plan. To that end, GCHP is evaluating existing policies and procedures regarding the issuance of corrective active plans. GCHP will promptly issue a request for corrective action plans in accordance with the severity and impact of any future errors by the pharmacy benefits manager which will include necessary penalties and remediation efforts.
COMMENT

CALIFORNIA STATE AUDITOR’S COMMENT ON THE RESPONSE FROM GOLD COAST HEALTH PLAN

To provide clarity and perspective, we are commenting on Gold Coast’s response to our audit. The number below corresponds to the number we have placed in the margin of Gold Coast’s response.

Gold Coast misinterprets the intent of our recommendation, which is intended to serve the public interest by increasing transparency in government decision making. Thus, our recommendation is not limited to complying with legal requirements for the commission to report formal findings of its decisions. Moreover, our recommendation pertains to the commission as a whole rather than the reasoning of individual commissioners. We trust the commission can establish a process that will both promote transparency in its decision-making process while preserving the rights and privileges of individual commissioners afforded by law. For example, once the commission has voted for a specific contractor, the commission chair could publicly summarize, to the best of his or her understanding, the factors that led to the commission’s overall decision. If the commission chooses not to do so, the chair should provide the legal basis and authority, if any, for that decision.