ESI Claims Processing Errors

Report Prepared for:

The FELRA and UFCW VEBA Fund

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Background Information

January-February 2019: During the course of analyzing ESI's renewal 2020 proposal to the Fund, three (3) material claims processing errors were discovered:

1. ESI processed/paid Prior Authorization (PA) claims through Mail Pharmacy.
2. A subset of participating pharmacies was coded incorrectly as non-participating.
3. ESI processed/paid claims at excluded pharmacies.

ESI was instructed to complete a root cause analysis of these errors and submit a corrective action plan, outlining procedures ESI will follow to ensure consistency and accuracy in administering the Fund's prescription drug program. At the direction of the Fund, all renewal negotiations were tabled in lieu of completing this analysis.

April 2019: ESI provided an assessment[1] of the damages resulting from the processing errors, including amounts due to the Fund and/or participants, and a proposed repayment plan. ESI's assessment of the damages, based on their internal analyses, are summarized on pages 4-5 of this report.

Additionally, ESI committed to provide Confidio documentation as needed or required to validate these findings. The results of Confidio's validation are summarized on page 6; where applicable, details are included on changes to ESI's initial findings, based on Confidio's validation process.

[1] Email submitted April 12, 2019

ESI's Assessment of Damages – Claims Processing Errors

Table 1: Mail Claims Processed in Error

Description	**ESI processed and paid mail claims.** *The Funds' plan designs do not include a mail benefit.*
Root Cause	Express Scripts' prior authorization (PA) process bypassed the mail order block in place for the Fund, allowing claims to process at mail.
Damages to the Fund, Participants	224 claims affected; $77,096.81 due back to the Fund.
Corrective Action Plan	ESI changed the PA logic to only allow for retail claims. A check in the amount of $77,096.81 will be issued to the Fund ASAP.

Table 2: Preferred Pharmacies not included in the Preferred Network

Description	**A subset of preferred pharmacies was not included in the preferred network. Participants were assessed a copay for non-participating pharmacies; the non-preferred pharmacy network discounts/dispensing fees were applied to the claims.** *Differential copayments apply to claims filled at preferred vs non-preferred pharmacies; preferred pharmacies have deeper discounts & lower dispensing fees compared to reimbursement rates at non-preferred pharmacies.*
Root Cause	Select pharmacies that should have been in the preferred network were coded as non-preferred pharmacies in the ESI adjudication system.
Damages to the Fund, Participants	$8k due back to the Fund; $36K due back to Participants.
Corrective Action Plan	Network pharmacies were added to the preferred network. Going forward, the ESI team will conduct a formal review process with Associated Administrators to identify pharmacies to add or remove from the preferred network. Checks will be issued to Participants and to the Fund upon final confirmation of ESI's analysis.

Table 3: Claims Processed at Excluded Pharmacies

Claims Processing Error #3	**Claims processed at non-covered (excluded) pharmacies.** *The Fund does not cover prescriptions filled at excluded pharmacies.*
Root Cause	Express Scripts completed a network migration 8/1/16. This was an internal platform change. The Fund's excluded chain pharmacies were not blocked subsequent to the migration process.
Damages to the Fund, Participants	34,958 claims affected; $2.391M due back to the Fund.
Corrective Action Plan	Excluded pharmacies were removed from the network on 3/2/19 retrospective to 8/1/16. All claims adjudicated between 8/1/16 and 3/2/19 were re-adjudicated. The results showed that claims from Rite Aid, Walmart, CVS , Walgreens and Sam's club rejected. This resulted in the reimbursement to the client. ESI proposed repayment plan: Payment 1: $500,000 on or about May 1, 2019; Payment 2: $500,000 on or about August 1, 2019; Payment 3: $500,000 on or about November 1, 2019' Payment 4: $500,000 on or about February 1, 2020; Payment 5: Remaining balance of $391k on or about May 1, 2020.

Confidio's Validation of ESI Findings

At the request of the Fund, Confidio completed an analysis of ESI's findings, using the following approach and methodology to validate ESI's assessment of damages reported on April 12, 2019.

I. Reviewed ESI's documentation used to identify errors and quantify damages, including but not limited to:

- A detailed description of ESI's root cause analysis for each error type
- ESI's methodology used to calculate repayment
- Claims detail used to calculate damages/amounts due cited in ESI's April 12, 2019 summary.

II. Detailed review of ESI ad hoc reports on paid claims for each error type, cross-referenced with Post Adjudication Layout (PAL) files stored in Confidio's data warehouse containing paid claims detail for the Fund dating back to 1/1/2013.

III. Ad hoc claims research and results supplied by ESI.

Confidio's Analysis and Results

Following is a summary of our findings for each processing error, and ESI's Final Disposition on Repayment, per their Settlement offers dated July 12, 2019 and July 16, 2019.

Claims Error #1: Mail Claims Processing in Error

Confidio reviewed/agrees with ESI's methodology[2] for calculating per-claim damages. Our analysis found 1 additional mail claim processed in error, which ESI has agreed to include in their repayment to the Fund and to Participants.

ESI April 12, 2019 Assessment	Validation Source Documents	Confidio Findings	Final Disposition
224 claims processed in error; $77,096.81 owed to the Fund	Claims Extract *RSAM 149450 FELRA EXTERNAL 041919,* received 4/23/2019 from ESI PAL Files	Identified 1 additional mail claim dated 3/13/2019/plan paid $410.91.	ESI agrees to compensate the Fund for this additional claim. Final count: 225 claims; $77,507.72[3] owed to the Fund

[2] Reprocessed claims, applying the correct plan design features; results used to calculate damages.
[3] Per an email dated 5/24/2019, ESI processed a credit of $77,507.72 toward the Fund's current claims invoice.

Claims Error #2: Preferred Pharmacies not in the Preferred Network

Confidio reviewed/agrees with ESI's methodology for calculating per-claim damages and amounts due to the Fund and to Participants. ESI is compensating the Fund for differences between the preferred vs non-preferred pharmacy discounts/fees, and compensating Participants for differences in copayments applied to preferred vs non-preferred pharmacies.

ESI April 12, 2019 Assessment	Validation Source Documents	Confidio Findings	Final Disposition
Analysis in process; initial results show $36K owed to Participants, $8K owed to the Fund	Claims Extract *RSAM 181449 FELRA EXTERNAL 050719* received 5/10/2019 from ESI PAL Files	Confidio identified an additional 1644 claims for which the Fund should be reimbursed; 73 claims for which the Fund and Participants should be reimbursed.	ESI agrees to include the additional claims in their compensation to the Fund and to Participants. Final count: 26,468 claims[4] $19,469.10 due to the Fund $37,724.03 due to Participants

Claims Error #3: Claims processed at non-covered (excluded) pharmacies.

Confidio reviewed/agrees with ESI's methodology for calculating individual claims amounts due to the Fund to compensate for claims costs incurred at an excluded pharmacy.

However, Confidio's identified discrepancies between ESI's initial claims error reports. Specifically, a comparison of ESI's report was cross-referenced with PAL files, dating back to 1-1-2013. Our initial findings showed an additional 2,721 net claims equating to $275,800 of Plan costs, compared to ESI's report. Detail for these discrepant claims was sent to ESI for further research on 5/7/2019.

Subsequent to this event, ESI indicated they will not research, nor consider any repayment to the Fund for claims processed at excluded pharmacies prior to 8/2016. Confidio continued attempts to validate our findings by applying then-current chain ID codes to the claims; results were sent to ESI on 5/31/2019. Additional attempts to resolve discrepancies were discontinued in lieu of ESI's decision to remove pre-August 2016 claims from consideration.

Target (CVS acq ID 221)	Rxs	Plan Cost

[4] Reported by ESI on May 17, 2019

12/15-12/31/2015	249	$17,127
1/1-7/31/2016	2532	$178,500
8/1/2016-current*	0	$0
TOTAL	2781	$195,628

ESI April 12, 2019 Assessment	Validation Source Documents	Confidio Findings	Final Disposition
34,958 claims processed in error; $2.391M owed to the Fund	Claims Extract *RSAM 181396 FELRA EXTERNAL* received 4/23/2019 from ESI PAL Files Chain Drug Store Lists with ID Numbers (supplied by ESI) for time period beginning August 2016 Chain Drug Store Lists with ID found in PAL Files for time period beginning 1/1/2013	Based on data from PAL files and Confidio's 5/31/2019 analysis using ID code 221: 2532 claims equating to $178,500 in plan costs processed/paid at Target pharmacies from January 1 – August 31, 2016.	ESI's final disposition on disputed claims, and the total amount owed, is detailed in their offer received 7/15/2019.

Recommendations and Next Steps

Based on the settlement offer received from ESI on July 15, 2019, the Fund will need to evaluate the following:

1) Agreement with ESI's settlement amount.

2) Agreement with proposed repayment terms[i].

Other Recommendations:

Require written commitment from ESI on the processes they'll implement to ensure the preferred, non-preferred and excluded pharmacy lists are routinely maintained, with results reported on a semi-annual basis.

Implement a performance metric that requires ESI to track, measure and report on a quarterly basis their consistency and accuracy in managing the network components of the Fund's plan design.

Work with ESI to establish a policy for coverage of specialty drugs covered by the Prescription Drug Plan that are only available through CVS specialty, due to Limited Distribution Drug (LDD) appointment by the manufacturer. A suggested policy is included as Attachment A.

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[i] If the Fund elects to have repayment via a credit to future invoices, ESI must agree to a higher level of transparency in their reconciliation of year-end guarantees.