



**Lehigh County**  
— Pennsylvania —


**OFFICE OF THE CONTROLLER**

Mark Pinsley, MBA      Nanton John, CFE

COUNTY CONTROLLER

DEPUTY CONTROLLER

TO:            Final Report Distribution

FROM:        Mark Pinsley, County Controller 

DATE:        December 12, 2024

RE:            Performance Audit – 2023 Prescription Rx Plan

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We have completed a performance audit of the prescription Rx plan administered by Capital Rx for the year 2023. The audit focused on administrative oversight, responsibilities, and analysis of paid prescription claims and fees in compliance with contractual obligations. Our report number 24-25 is attached. We wish to thank the Office of Administration, Human Resources, Office of Fiscal Affairs, Capital Rx and McGriff Insurance for their assistance and cooperation during the audit.

Summary of Audit Findings:

Contracting with a third-party creates risk; however, that risk can be effectively managed through periodic validation of contractual compliance and the validation of effective controls within the vendor's operations and at the County.

The audit identified the lack of County's oversight/ownership in managing plan participants, invoiced claims and various administration fees, adjusted fees, validation of rebates, and lack of awareness of an amended contract. Management should evaluate and assess the risks associated with the administration of the prescription Rx plan, design effective controls, determine the adequacy of staffing, assign ownership responsibilities, and monitor contractual compliance.

See "*Schedule of Audit Findings and Recommendations*"



**COUNTY OF LEHIGH, PENNSYLVANIA**

**PRESCRIPTION Rx PLAN**

*Performance Audit of Employee Offered Prescription Rx  
Plan for the Year 2023*

COUNTY OF LEHIGH, PENNSYLVANIA

PRESCRIPTION Rx PLAN

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COUNTY OF LEHIGH, PENNSYLVANIA  
PRESCRIPTION Rx PLAN

***Background***

The County of Lehigh (COL) operates a self-funded prescription plan that is offered to current employees, spouses, their dependents, and retirees. To assist with insurance placement solutions, the COL utilizes McGriff Insurance, an insurance risk management broker, with the intent to minimize claim risks/costs. Through this relationship, the COL has contracted with Capital Rx

COL entered into an agreement, effective January 1, 2022, with Capital Rx for the operation of a prescription benefit management (PBM) program for its members. The agreement has an initial term of 3 years from the start date (ending 12/31/2024). Capital Rx is responsible to establish and maintain a formulary management program, arrange for the provision of rebates from pharmaceutical manufacturers, contracting with pharmacies, and processing and paying prescription drug claims. Capital Rx provides claim data to McGriff on a periodic basis for analytical purposes.

The Office of Administration is responsible for the management of the plan which includes the selection of a prescription Rx insurer, negotiation of contracts, contractual compliance, plan administration, and the validation of costs.

***Three-year cost and participation comparison:***

	2021	2022	2023
<b>Vendor</b>	<b>Highmark</b>	<b>Capital Rx</b>	<b>Capital Rx</b>
<b>COL Prescription Plan Cost*</b>	\$ 7,015,116	\$ 6,538,602	\$ 4,632,726
<b>% Change</b>	<b>19%</b>	<b>-7%</b>	<b>-29%</b>
<b>Plan Participants (year-end)</b>	3,422	3,196	3,027
<b>% Change</b>	<b>-7%</b>	<b>-7%</b>	<b>-5%</b>
<b>Cost per Participant</b>	\$2,050	\$2,046	\$1,530

\* = Net of employee paid premiums and co-pays. Includes stop loss policy reimbursements and prior plan run-off.

**What is a PBM?**

According to the PA Department of Insurance, a pharmacy benefit manager (PBM) administers prescription drug plans for health insurance plans. Pharmacy benefits management includes negotiating with drug manufacturers for contracted prices, operating a mail-order pharmacy, processing claims, managing retail pharmacy networks, managing a clinical formulary, and setting pharmacy reimbursement pricing<sup>i</sup>.

PBMs have come under scrutiny over the past several years in two primary areas<sup>ii</sup>:

- Potentially steering patients to their own pharmacies and away from independent pharmacies; and,
- the lack of transparency into the industry’s operations.

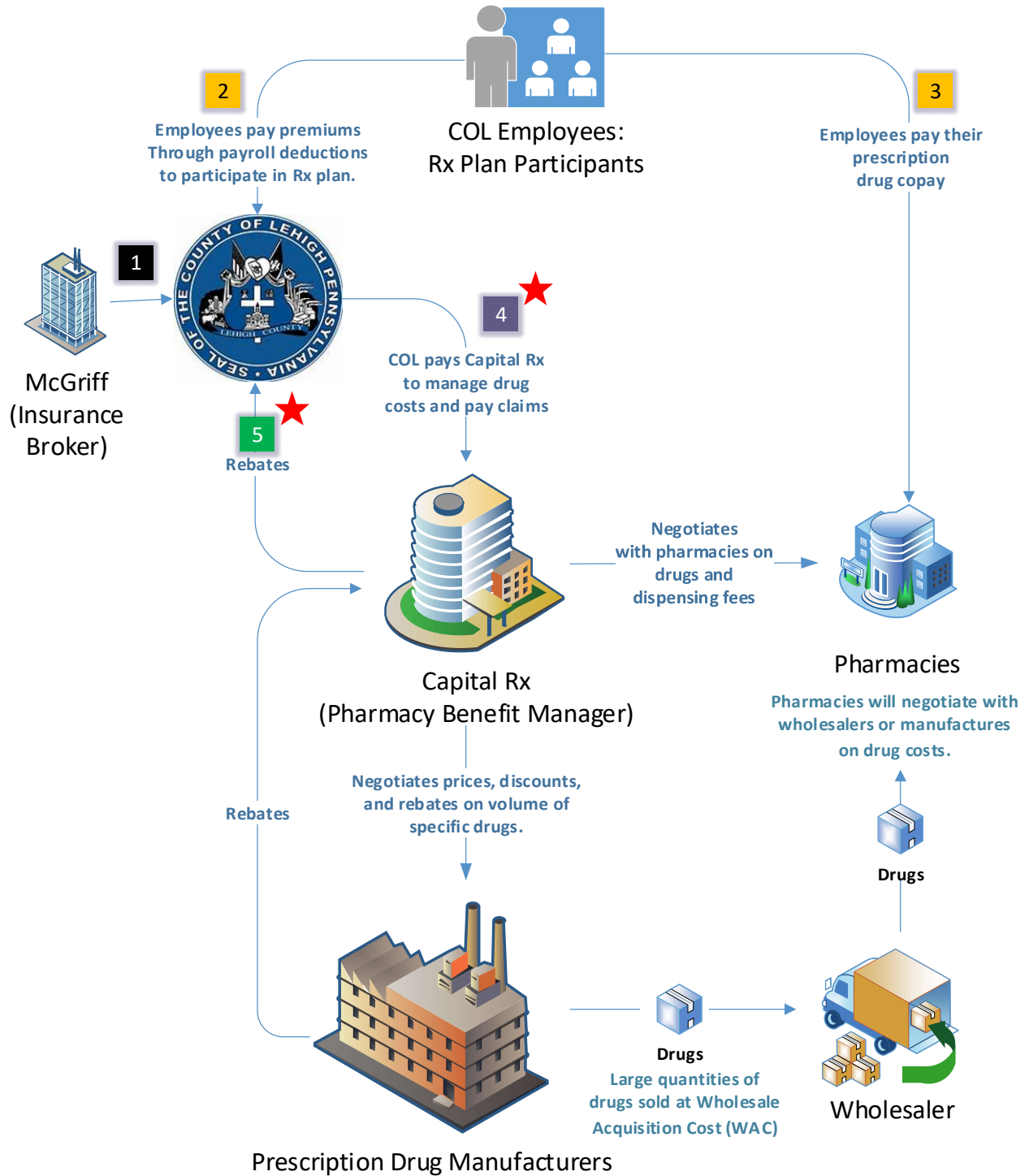
They are among the players in the drug industry being blamed for the rising cost of medications.

<sup>i</sup> <https://www.insurance.pa.gov/Licensees/Pages/Pharmacy-Benefit-Managers.aspx>

<sup>ii</sup> <https://www.cnn.com/2024/07/09/health/ftc-report-pbm-pharmacy-healthcare/index.html>

COUNTY OF LEHIGH, PENNSYLVANIA  
 PRESCRIPTION Rx PLAN

OVERVIEW OF SELF-FUNDED Rx PRESCRIPTION PLAN:

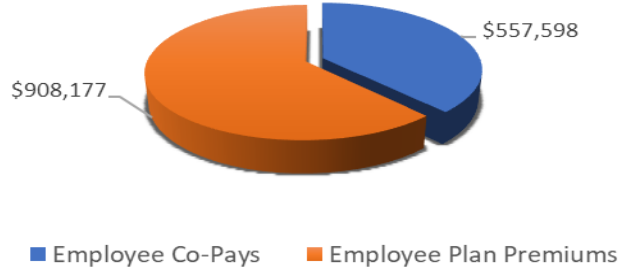


- Broker assists with vendor selection
- County payment net of employee payroll deduction
- Employee payments
- Manufacturer rebates passed through Capital Rx
- Audit Focus

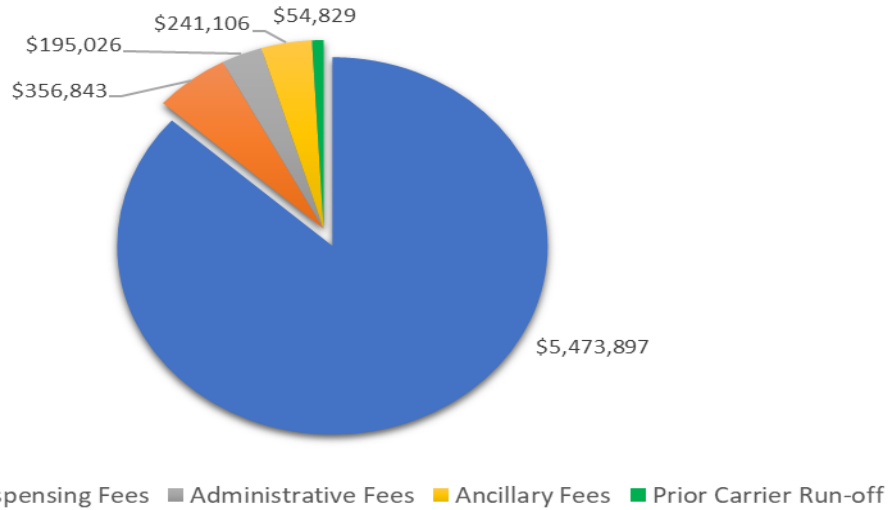
COUNTY OF LEHIGH, PENNSYLVANIA  
 PRESCRIPTION Rx PLAN  
**2023 COST SUMMARY SCHEDULE**

	<b>Total</b>	<b>% of Cost</b>
<i>Employee Premiums and Co-Pays</i>	<b>\$1,465,775</b>	<b>23.8%</b>
<i>County of Lehigh Claims and Fee Costs</i> \$ 6,321,702		
<i>County of Lehigh Reimbursements</i> \$ (1,688,976)	<b>\$4,632,726</b>	<b>75.2%</b>

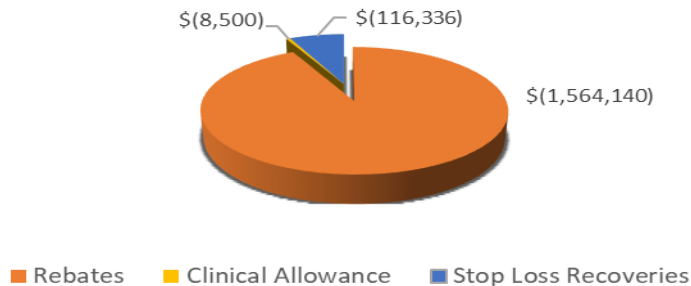
**Employee Prescription Plan Costs: \$1,465,775**



**County of Lehigh Prescription Plan Costs: \$6,321,702**



**County of Lehigh Prescription Plan Cost Recoveries: \$(1,688,976)**





## OFFICE OF THE CONTROLLER

Mark Pinsley, MBA    Nanton John, CFE  
COUNTY CONTROLLER    DEPUTY CONTROLLER

Edward Hozza, Jr., Director of Administration  
Lehigh County Government Center  
17 South Seventh Street  
Allentown, PA 18101-2400

We have recently completed a performance audit of the prescription Rx plan administered by Capital Rx (Resolution 2021-69; approved 11/10/2021) for calendar year 2023. We conducted this performance audit in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Performance Audit section of our report.

The standards also require us to be independent and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit; and, 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Responsibilities of Management**

Management is responsible for the administration/oversight of the prescription Rx plan referred to above, and for the design, implementation, and maintenance of effective internal controls over contractual compliance.

### **Auditor's Responsibilities for the Performance Audit**

We performed this audit based on our county-wide risk assessment. The objective of our audit was to obtain reasonable assurance of the adequacy of controls over the administration of the prescription Rx plan for Lehigh County plan members. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* will always detect material weakness when it exists. The risk of not detecting material weakness resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

The scope of our detail audit testing was adherence to contractual obligations, prescription claim and fee payments, and rebates received during the calendar year 2023. Our consideration of compliance and internal control was limited to audit testing required to meet the audit objective and would not necessarily identify all deficiencies that might be significant or material weaknesses. We considered the concept of accountability for use of public resources and government authority while assessing audit risk associated with internal controls and incorporated appropriate risk-based testing in our audit.

Our audit also included sufficient and appropriate tests for fraud, waste and abuse and we included in our report any material (either quantitatively or qualitatively) instances we noted that are material to

the audit objectives, however, our audit procedures would not necessarily identify all instances of fraud, waste and abuse that may be reportable. Any findings of waste, even though not material to the audit objectives, are included in writing and were brought to the attention of those in charge of governance.

### **Objectives, Scope, & Methodology**

In performing an audit in accordance with GAAS, *Government Auditing Standards*, we performed a review over the effectiveness of compliance, and internal controls in areas we identified as significant to the audit objective.

#### The following compliance objectives were assessed:

Contractual compliance elements with Capital Rx, McGriff (Broker), and Highmark Life Insurance Company. Elements included: vendor approval; campaign finance disclosure form; right to audit clause; insurance certificates; fees and services; stop loss insurance obligations; and, broker compensation.

We conducted our testing with contracts in-place during calendar year 2023. Our methodology included the review of contract approval documentation and support; understanding of contracts; interviews with management and vendor personnel; validation of invoiced fees; and, validation of annual performance guarantee reconciliation.

#### The following components of internal controls were assessed:

Capital Rx's System and Organization Control (SOC) report and findings; management's oversight and validation of contractual compliance which included: completeness of invoiced claims, fees, and rebates to financial records; timely removal of terminated participants; employee complaints or instances of fraud reported to Capital Rx or management ; vendor identified fraudulent activity; claim adjustments; utilization; improper use or security breach; and vendor performance.

We conducted our testing of activity that occurred during calendar year 2023. Our methodology included the assessment of Capital Rx's SOC reports; interview with the county's Director of Administration; various interviews with vendor and county personnel responsible for the administration of contractual compliance; reconciling paid invoices and rebates received to financial records; validating management's review of paid invoices; validating plan participants between county and vendor records; and, validating the existence of the county's policy in response to a vendor reported improper use or security breach incident.

### **Compliance, Internal Controls, and Other Matters**

As part of obtaining reasonable assurance over the adequacy of contractual compliance for the prescription Rx plan, we performed tests of its compliance with certain provisions of laws, regulations, and contracts.

*A deficiency in internal controls* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, on a timely basis. A *material weakness* in internal controls is a deficiency, or combination of deficiencies in internal controls, such that there is a reasonable possibility that material transactions are not prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal controls* is a deficiency, or a combination of deficiencies, in internal controls that is less severe



than a material weakness in internal control, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls over the administration of the prescription Rx plan is described in the "Auditor's Responsibilities for the Performance Audit" section above and was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies in internal controls. Given these limitations, during our audit we did not identify any deficiencies in internal controls that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal controls may exist that have not been identified.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over the administration of the prescription Rx plan that the auditor identified during the audit

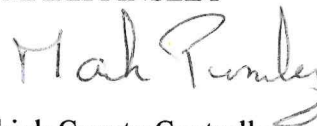
### **Conclusion**

The results of our tests disclosed deficiencies in internal controls and non-compliance or other matters that are described in the accompanying "*Schedule of Audit Findings and Recommendations*" that are required to be reported under *Government Auditing Standards*.

### **Management's Response to the Audit**

The Director of Administration's response to our audit is included in this report. We did not audit the Director of Administration's response and, accordingly, we do not express an opinion on it. This report is intended for the information and use of the Office of Administration and other affected county offices. However, this report is a matter of public record and its distribution is not limited.

MARK PINSLEY



Lehigh County Controller

December 11, 2024  
Allentown, Pennsylvania  
Audited by: Joseph Buick

### **Final Distribution:**

Phillips Armstrong, County Executive  
Board of Commissioners  
David Backenstoe, Solicitor  
Keisha McCullin-Bulluck, Chief Human Resources Officer  
Timothy Reeves, Chief Fiscal Officer  
Nicholas Van Hook, Capital Rx Vice President Commercial Markets

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COUNTY OF LEHIGH, PENNSYLVANIA  
PRESCRIPTION RX PLAN

*Schedule of Audit Findings and Recommendations*

1. Missing Campaign Finance Disclosure Form

**Condition:** The Administrative Code (sections 801.7 (E), and 801.5) requires any business entity that wishes to enter into a contract with Lehigh County to complete and submit a Campaign Finance form. Based on the review of supporting contractual documents with Capital Rx, a control failure was identified allowing the Commissioners to approve Capital Rx as a vendor in 2021 without the receipt and review of a Campaign Finance Disclosure form.

**Recommendations:**

- We recommend that the Director of Administration obtain a Campaign Finance Form from Capital Rx for the period when the contract was initially approved by the Commissioners. The Director of Administration should also work with the Office of the Commissioners to evaluate the internal processes/controls for the timely identification of required campaign finance forms prior to vendor approval.
- Additionally, we recommend that the law department evaluate their internal processes/controls for the timely identification of required campaign finance forms.

**Department of Law Response:**

The Department of Law agrees with the first recommendation that the Director of Administration obtain the campaign finance forms required by section 801.7 of the Lehigh County Administration Code for the indicated years.

The Department of Law (DOL) disagrees with the second recommendation that there is a need for the office to evaluate its internal processes/controls with regard to the submission of campaign finance forms for the following reasons. Section 801.7 requires that all health care contracts comply with section 801.5 of the Administrative Code concerning the submission of campaign finance disclosures. Under these sections of the Code, the DOL is not the entity responsible for determining compliance with section 801.5 of the Administrative Code.

The role of the DOL is engaged when a department or office requests legal services. When legislation is requested for consideration by the Board of Commissioners, the DOL drafts the legislation and determines if it complies with County procedures and applicable laws, which, where applicable, includes collecting and uploading campaign finance forms provided by the requesting department or office. Since the approval of the CapRx carve out in 2021, the DOL uses the same process for legislation concerning health care approvals as that used with legislation approving professional services agreements and requests the campaign disclosure forms for all healthcare providers presented to the BOC.

2. Administration of Prescription Rx Plan

In 2023, the County paid approximately \$6.3M in prescription claims and related fees (excluding rebates of approximately \$1.6M). Based on the review of the contract between the County of Lehigh (COL) and Capital Rx, various interviews, and the examination of incurred and paid claims and fees, there appears to be a lack of management oversight and associated controls to ensure contractual compliance. The following were noted:

**Condition #1:** The contract between the COL and Capital Rx requires Capital Rx to maintain certain levels of liability insurance coverage limits. The Director of Administration failed to request confirmation of those limits for 2023, nor was evidence to support the validation of the liability insurance coverage limits provided to the Office of Fiscal Affairs

**Recommendation:** We recommend that controls be established by the Director of Administration to ensure the annual validation of Capital Rx liability limits, and provide support of the limits to the Office of Fiscal Affairs in a timely manner.

**Condition #2:** Human Resources and Office of Fiscal Affairs personnel who are responsible for the administration of the County's prescription Rx plan were not aware that the County's contract with Capital Rx was amended 7/13/2023, with an effective date of 1/1/2023. The amended contract impacted fees and services. In addition, a copy of the amended contract was not provided the Office of Fiscal Affairs' Account Payable department who has the responsibility to maintain a current repository of contractual pricing schedules

**Recommendation:** We recommend that subsequent contract amendments with Capital Rx be communicated prior to the effective date to those departments with administrative responsibilities. Additionally, a copy of the amended contract should be provided to the Office of Fiscal Affairs timely.

**Condition #3:** Responsibility for the validation of invoiced fees, understanding of claim adjustments, and substantiation of rebates was not assigned and/or understood. No evidence of management oversight noted.

- Invoice Payments: The Office of Fiscal Affairs, who executes the payment of Capital Rx invoices, lacked an understanding of invoiced fees, and fees were not validated to the contract prior to payment throughout 2023.
- Claim Adjustments: Responsibility to review claim adjustments has not been assigned by management; therefore, no review/monitoring was performed in 2023.
- Rebates: No detail was provided by Capital Rx for the four rebates received in 2023. No validation performed by management.

**Recommendation:** We recommend that the responsibility for the oversight, management and validation of payments, adjustments and rebates be clearly defined, communicated and confirmed by management. In addition, although net adjustments are deemed immaterial in 2023, management should either request a breakout for adjustments when applied to our monthly invoices, or request periodic reports to monitor and understand the adjustments.

**Condition #4:** No independent validation performed by management to confirm pricing methodology and associated cost for prescriptions claims in compliance with the contract.

**Recommendation:** Due to the complexity of pricing prescription Rx claims, the County does not have the expertise to validate/confirm invoiced costs. As recommended in the 2022 Highmark Medical Claim audit report, the Office of Administration should, on a periodic basis, request a paid claim audit by a qualified third-party vendor. This type of audit will provide the County assurance that our pharmacy benefit manager is processing and adjudicating our claims in compliance with our contract/agreement.

### 3. Participant Validation

**Condition:** Based upon confirming the performance of plan participants reconciliations between COL and Capital Rx records, auditor was informed that reconciliation controls have not been established. Auditor attempted to reconcile plan participants between County payroll deductions and Capital Rx Enrollment Report as of 12/31/2023, but was unable to perform. The following was identified:

- Periodic participant reconciliation between COL and Capital Rx records is not performed.
- Audit identified one employee and their dependents that had coverage indicated by Capital Rx, but never enrolled (no payroll deductions).
- Capital Rx enrollment report provided for the audit at 12/31/2023 included numerous participant coverage errors.

**Recommendation:** Although there is an automated daily file between COL and Capital Rx, issues may arise in either system that may cause discrepancies We recommend that a reconciliation be performed between COL and Capital Rx records taking into account active employees, employees on leave, terminated employees with COBRA coverage, and retirees. Once the above reconciliation is complete, additional reviews should be periodically scheduled to ensure the continued accuracy of participants.

### 4. Security Breach Policy/Protocol

**Condition:** The contract with Capital Rx includes criteria surrounding the timely communication of a known improper use or security breach incidences. Auditor inquired of the Director of Administration whether the County has an established policy/protocol in place when notified of an improper use/security incidence occurring in a vendor system that contains employee personal identifiable information (PII) and HIPPA information. Informed that the County has a policy and that it would be shared with the Controller's office. After four inquires, no policy was provided.

**Recommendation:** Without a proper and timely communication plan, the county is exposed to increased potential liability. We recommend that the Office of Administration work closely with IT and the Law departments to create a policy/protocol incase employee PII and/or HIPPA information is improperly used or breached. The policy/protocol should apply to both vendor and internal systems that retain employee personal information.

### 5. Performance Reports

**Condition:** When reviewing the contract with Capital Rx, the following was noted under Schedule C: Performance Guarantees – the following measured areas are noted:

- System Availability,
- Mail Turnaround Time,
- Member Services Average Speed to Answer,
- Member Services Abandonment Rate,
- Member Services Blockage Rate,
- Electronic Claim Processing Accuracy,
- Implementation Overall Satisfaction,
- ID Cards,
- Account Management Overall Satisfaction,
- Plan Participant Submitted Paper Claim Turnaround Time,
- Reporting

The contract states that Capital Rx shall provide the Performance Guarantee report card to Sponsor upon request. Capital Rx indicated that the County has not requested Performance Guarantee report(s).

**Recommendation:** Although having a third-party perform an assessment of claim processing accuracy and guaranteed customer service levels provides greater assurance, requesting periodic assessments will put the service organization on notice that management is monitoring to validate contractual compliance in support of invoiced costs and services



COUNTY OF LEHIGH  
Department of Administration

Edward D. Hozza, Jr.  
Director of Administration

**Director of Administration**

**Response to Controller office Discretionary Performance audit of Pharmacy  
Benefit Manager (PBM) Capital Rx for 2023**

The Director of Administration in collaboration with our Human Resource Director(s) and McGriff our Healthcare consultant have achieved record savings in Healthcare, Prescription, Vision, Dental, and Insurance coverage since 2018, while still providing exceptional coverages for our employees, eligible spouses, dependents and grandfathered retirees at minimal payroll deductions and co-pays. This report highlights that in 2023 the Prescription drug costs thru Capital Rx reduced by 29%. No other division in the County of Lehigh has produced reductions in costs that ultimately benefit the Property Taxpayers of Lehigh County.

***Finding 1 Missing Campaign Finance Disclosure Form***

Disagree

Initial 2021 Confirmation of a Capital Rx Campaign Finance Report (CFR) before approval by the Board of Commissioners is the responsibility of the Law Department not the Director of Administration (DOA). The DOA was never notified by the (DOL) that the CFR was lacking.

All of the Capital Rx Campaign finance reports are now in the possession of the D.O.A

***Finding 2 Administration of Prescription Rx Plan***

Condition # 1 Agree

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Allentown, Pennsylvania 18101-2401  
Phone: 610-782-3001  
Fax: 610-871-2755  
edhozza@lehighcounty.org*



COUNTY OF LEHIGH  
Department of Administration

Edward D. Hozza, Jr.  
Director of Administration

A verification system has been enacted for staff to receive annual Certificates of Insurance (COI) from Health care vendors

Condition # 2 Amended Contract

Disagree

The amended contract on the recommendation of McGriff and Capital Rx and reviewed by the County Department of Law (DOL) since February 2022 decreased the Performance Guarantee non-Specialty from the 2022 level of \$64.87 to \$62.83 in 2023. Capital Rx enhanced the entire agreement thru the amendment to the benefit of the Taxpayers. The Department of Law made the recommendation to have an effective date of January 1, 2023.

Next section Agree

Assumed amended contract was shared with Fiscal Office

Condition #3, Condition #4

Agree

The County would have to hire a Fiscal Staffer who has complete knowledge of the current Healthcare billing system in the United States estimated cost \$125,000 without benefits to review several invoices a month.

***Finding 3 Participation Validation***

Agree

Seriously, our staff are dealing with a homemade antiquated 1990's DOS system named KEA.

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COUNTY OF LEHIGH  
Department of Administration

Edward D. Hozza, Jr.  
Director of Administration

**Finding 4 Security Breach Policy/Protocol**

Disagree

The Administration relies on the same Healthcare security notification protocols at Cedarbrook Senior Care in any potential breach of HIPPA or hacking of personal Healthcare information.

**Finding 5 Performance Reports**

Disagree

The fact that we receive very few concerns/Complaints from our employees utilizing Capital Rx speaks volumes on the "Employee Satisfaction Rate"

The DOA relies on the reporting we receive from Capital Rx and McGriff on the critical information based on based on costs and trends.

Edward D. Hozza Jr.

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