



City of Houston

Ronald C. Green

City Controller

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Audit Reveals City Lost Millions in Drug Charges
Controller says pharmacy benefits not in 'best interests' of City and employees

Houston, TX – An audit released today by the City of Houston Controller’s Office Audit Division concludes that the City and plan participants lost millions of dollars in its self-insured prescription medication program. The audit focused just on the first year of the self-insured plan which began May 1, 2011. The City’s third-party plan administrator is the Connecticut General Life Insurance Company (CIGNA); the three year administrative services agreement (ASA) with CIGNA totals \$84 million.

The City lost money through drug costs and rebates that were not in keeping with true market value. The contract agreement with CIGNA allowed the company to charge a price for medication to the City but remit less to the pharmacy for the medication and keep the difference. The audit estimates that City of Houston participants might have obtained savings of approximately \$3.7 million, \$1.5 million from rebates and \$1.9 million from ingredient costs. Another \$234,000 was overage due to administrative costs and fees.

“When the City opted to change its insurance plan from fully insured to self-insured, it accepted the responsibility for covering employees and their covered dependents—and the City also accepted the risks associated with a large insurance package,” says Houston City Controller Ronald Green. “Hopefully, in a self-insured plan, the rewards greatly outweigh the risks. Our audit indicates that the City should have staff professionals with expertise in all areas of health coverage and not rely solely on the plan administrator—CIGNA—to make decisions that should inherently benefit the City. In the agreement with CIGNA, the average wholesale price and the qualification or preferences of generic and brand drugs were not in the best interests of the City.”

The Controller’s audit reviewed approximately 517,497 claims from the first year of the agreement. The generic dispensing rate was 78 percent; the plan’s cost of the drugs was \$10.4 million, compared to the market average wholesale price of \$8.4 million. However, the contract does allow CIGNA a “positive margin” pricing, something not typical in a large pharmacy benefit management (PBM) agreement.

“Another area of concern for us was the preferred drug rebates paid to the PBM—CIGNA. In the contract, CIGNA is permitted to choose the preferred drug based on the rebate, not on the efficacy—effectiveness—of the drug nor the cost/benefit ratio of the medication. Clearly, the City should have significant input into the formulary offered to its employees and their dependents, and it appears we did not have that input, “ says Green. “Again, staff professionals with expertise in this area are essential, says Green.

In a separate but related audit, the Controller’s Office found ineffective internal controls ensuring validity of eligibility for health benefits. The audit recommends the City take steps to create a process that detects discrepancies and has timely remediation. “I know the City’s Human Resources Department will work expeditiously to remediate the issues in this audit,” says Green.

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Ronald C. Green was elected Houston City Controller in December 2009, after serving three terms as a Council Member At Large on Houston's City Council where he also served as Chair of the Budget and Fiscal Affairs Committee. He was unopposed for his second term as Controller. Green earned both a Bachelor of Science and a Master of Business Administration from the University of Houston, as well as a law degree from Texas Southern University's Thurgood Marshall School of Law. He is licensed to practice law in the State of Texas, the District of Columbia, the 5th Circuit Court of Appeals and the United States Supreme Court. Green is also a licensed real estate broker. In January 2013, he was appointed to the Governmental Accounting Standards Advisory Council (GASAC),