

Office of the Auditor General  
Performance Audit Report

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**Efforts to Monitor Established Service Level  
Agreements for the Medicaid Pharmacy  
Benefits Manager Contract**  
Michigan Department of Health and Human Services

March 2026

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The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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Office of the Auditor General

## Report Summary

### *Performance Audit*

### *Efforts to Monitor Established Service Level Agreements for the Medicaid Pharmacy*

### *Benefits Manager Contract*

### *Michigan Department of Health and Human Services (MDHHS)*

**Report Number:**  
**391-0117-25**

**Released:**  
**March 2026**

MDHHS's Pharmacy Management Division oversees the Medicaid pharmacy benefits manager (PBM) contract held by Prime Therapeutics State Government Solutions, LLC. The PBM contractor processes pharmacy claims for the Medicaid fee-for-service program, as well as all pharmaceuticals carved out of the managed care organization contracts, and administers the drug rebate program. MDHHS is responsible for monitoring service level agreements (SLAs) included in the PBM contract, which establish a framework for how the contractor's service is measured and financial credits for instances when the agreed upon service levels are not achieved. The total PBM contract value is approximately \$82 million for the roughly seven-and-a-half-year period ending September 30, 2026.

Audit Objective			Conclusion
Objective: To assess the sufficiency of MDHHS's efforts to monitor SLAs established in the Medicaid PBM contract.			Not sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MDHHS's PBM contract monitoring plan lacked detail about its planned monitoring activities, did not include other types of monitoring activities outside of "desk review of work product," and had not been updated since the plan's creation in May 2019. Also, MDHHS had not established internal policies, procedures, or other instructions specifying how it carried out its monitoring of contract SLAs ( <a href="#">Finding 1</a> ).	X		Disagrees
MDHHS relied on the contractor's self-asserted compliance with SLA requirements without independent verification of the information and did not always document other monitoring activities ( <a href="#">Finding 2</a> ).	X		Disagrees

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Office of the Auditor General  
201 N. Washington Square, Sixth Floor  
Lansing, Michigan 48913

**Doug A. Ringler, CPA, CIA**  
Auditor General

**Laura J. Hirst, CPA**  
Deputy Auditor General



# OAG

Office of the Auditor General

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**Doug A. Ringler, CPA, CIA**  
Auditor General

March 25, 2026

Elizabeth Hertel, Director  
Michigan Department of Health and Human Services  
South Grand Building  
Lansing, Michigan

Director Hertel:

This is our performance audit report on the Efforts to Monitor Established Service Level Agreements for the Medicaid Pharmacy Benefits Manager Contract, Michigan Department of Health and Human Services.

Your agency provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler  
Auditor General



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# AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

# **EFFORTS TO MONITOR SERVICE LEVEL AGREEMENTS**

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## **BACKGROUND**

The Michigan Department of Health and Human Services' (MDHHS's) Pharmacy Management Division is responsible for overseeing the pharmacy benefits manager (PBM) contract with Prime Therapeutics State Government Solutions, LLC, including monitoring established service level agreements\* (SLAs). The PBM contractor is responsible for processing pharmacy claims for the Medicaid fee-for-service program, as well as all pharmaceuticals carved out of the managed care organization contracts. The contractor also administers the drug rebate program, including calculating rebate amounts and invoicing drug manufacturers.

To ensure accountability and performance, MDHHS established 40 SLAs in the PBM contract to define the level of service MDHHS expects from the contractor, as shown in Exhibit 1. An SLA establishes a framework for how service is measured and establishes financial credits for instances when the agreed-upon service levels are not achieved. Examples of the PBM contract SLAs include the accuracy of the contractor's claims processing and the availability of the contractor's online claims processing system used by pharmacies to submit pharmacy claims.

In accordance with the Management and Budget Act, the Department of Technology, Management, and Budget (DTMB) established the Michigan Procurement Policy Manual (MPPM) as the official source of procurement policy. The MPPM and associated published guidance requires MDHHS to:

- Develop and maintain a contract monitoring plan\* corresponding to the contract's risk, complexity, and dollar value (see Exhibit 2).
- Complete periodic monitoring reports at the frequency prescribed in the contract monitoring plan.
- Actively monitor contractor performance to ensure compliance with contractual requirements, including SLAs.
- Maintain sufficient documentation to demonstrate monitoring activities were performed and results evaluated.
- Take timely corrective or enforcement action when performance deficiencies are identified.

## **AUDIT OBJECTIVE**

To assess the sufficiency of MDHHS's efforts to monitor SLAs established in the Medicaid PBM contract.

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\* See glossary at end of report for definition.

**CONCLUSION**

Not sufficient.

**FACTORS  
IMPACTING  
CONCLUSION**

- Two material conditions\* related to deficiencies in MDHHS's:
  - Contract monitoring plan and written monitoring procedures for PBM contract SLAs (Finding 1).
  - Performance and documentation of monitoring activities over the PBM contractor's compliance with SLAs (Finding 2).
- MDHHS completed contract monitoring reports\* when requested by DTMB.
- MDHHS ensured the contractor submitted monthly performance report cards and generally enforced service credits, as applicable, when the contractor reported noncompliance with SLAs.

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\* See glossary at end of report for definition.

## FINDING 1

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**Significant improvement needed in MDHHS's PBM contract monitoring plan and written monitoring procedures for contract SLAs.**

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MDHHS's contract monitoring plan stated "desk review of work product" would be performed to monitor all SLAs; however, the plan lacked detail about how or when it planned to carry out the desk reviews.

MDHHS needs to significantly improve its contract monitoring plan and establish written monitoring procedures for contract SLAs to help mitigate potential financial and performance risks associated with the PBM contract and hold the contractor accountable for fulfilling its obligations. A robust written plan also helps ensure consistent, high-quality oversight over the life of the contract.

State procurement policy requires MDHHS to develop a contract monitoring plan corresponding to the contract's risk, complexity, and dollar value and actively monitor contractor performance to ensure compliance with contractual requirements, including SLAs.

Our review noted:

a. MDHHS's PBM contract monitoring plan:

- (1) Lacked detail about its planned monitoring activities, simply stating "desk review of work product" would be performed for all SLAs as well as all other deliverables, reports, and invoice requirements listed in the plan. We noted MDHHS's plan did not include descriptions or other narrative information about how or when it planned to carry out its intended desk reviews.

The MPPM requires departments to define specific monitoring methods, how to conduct reviews, who performs the review, and retention of evidence supporting the completion of monitoring activities.

- (2) Did not include other types of monitoring activities outside of "desk review of work product." DTMB guidance indicates contracts can be monitored in a number of ways, including site visits for more complex contracts to verify actual performance and enhance communications, review through sampling a larger population, review of reports, and/or desk review of work product. DTMB guidance indicates monitoring and evaluation through these numerous measures may result in the contractor being more responsible in fulfilling contract obligations, and it may also reveal issues requiring resolution or other actions.

DTMB classified the PBM contract as its highest-risk category (category level 5), suggesting more robust monitoring through use of several methods is likely necessary. The PBM contract allows MDHHS the right to audit records and data related to the contractor's performance, including the right for MDHHS to enter and inspect the contractor's premises and examine, copy, and audit all records related to the contract at any time during the contract.

MDHHS's contract monitoring plan was created in May 2019 and had not been updated for new and revised SLAs resulting from subsequent contract amendments.

- (3) Was not updated for contract changes since the plan's creation in May 2019, although contract amendments were executed in 2020 and 2023 creating five new SLAs and revising four existing SLAs.

For example, the October 2020 contract amendment added an SLA requiring the contractor to provide a monthly report summarizing results of a high-level review of claims files for rebate processing. Also, the August 2023 amendment added an SLA requiring the contractor's submission of a monthly rebate payment reconciliation report; however, these SLAs and MDHHS's corresponding monitoring activities were not added to the contract monitoring plan.

MDHHS informed us it developed the plan at contract execution and was unaware of its responsibility for maintaining an up-to-date contract monitoring plan according to the policy and guidance issued by DTMB.

- b. MDHHS had not established internal policies, procedures, or other informal instructions specifying how it carried out its monitoring activities over PBM contract SLAs.

*Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book) was adopted by the State of Michigan and sets internal control\* standards to achieve objectives related to operations, reporting, and compliance. Principles 10 and 12 of the Green Book require management to develop and implement policies to establish responsibilities and the associated control activities for operational processes and require periodic review of policies and procedures for continued relevance and effectiveness\*.

MDHHS stated it believed the monitoring activities documented as part of its biennial internal control evaluation and annual service organization control report processes were sufficient; however, informed us it recognized the need to establish formal written monitoring procedures over the contractor's compliance with SLA requirement.

We consider this finding to be a material condition because of the:

- Significant deficiencies noted in the quality and thoroughness of MDHHS's contract monitoring plan coupled with the lack of other written monitoring procedures, despite DTMB's classification of the PBM contract as high risk.

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\* See glossary at end of report for definition.

- Noncompliance with State procurement policies designed to ensure effective use of public funds.

**RECOMMENDATIONS**

We recommend MDHHS significantly improve its contract monitoring plan regarding SLAs for the PBM contract.

We also recommend MDHHS establish written policies and/or procedures for monitoring PBM contract SLAs.

**AGENCY  
PRELIMINARY  
RESPONSE**

MDHHS disagrees. Given the length of MDHHS's preliminary response, the response and our auditor's comments to Finding 1 are presented on page 33.

## FINDING 2

**Performance and documentation of monitoring activities over the contractor's compliance with SLAs needs significant improvement.**

MDHHS needs to significantly improve its performance and documentation of monitoring activities over the PBM contractor's compliance with SLAs to better ensure the contractor is performing all required duties in accordance with the contract. Without appropriate monitoring activities, MDHHS may remain unaware of and/or may not promptly address developing contractor performance problems or issues.

MDHHS is responsible for managing contracts in a fiscally prudent manner and ensuring its contractors meet contractual obligations through performance of contract monitoring activities. In the absence of a robust contract monitoring plan and written policies/procedures, as reported in Finding 1, we inquired about monitoring activities MDHHS performed to ensure the contractor complied with SLA requirements. MDHHS informed us it obtains a contractor-prepared monthly performance report card and performs other monitoring activities through its real-time access to the contractor's various systems and reports.

Our review noted:

MDHHS did not perform independent verification of the contractor's self-asserted compliance with SLA requirements.

- MDHHS did not perform independent verification of the information contained on the monthly performance report card, which contains the contractor's self-asserted compliance (or noncompliance) with SLA requirements. The underlying reports and information supporting the contractor's self-assertions are available to MDHHS via the contractor's system(s); however, MDHHS does not review the available information to corroborate the information on the report card. An excerpt of an example report card is as follows:

Performance Guarantee		Compliance Y or N
Monthly		
The Contractor must provide online point-of-sale operations 24x7x365 available no less than 99.9% of the time - except for Contractor scheduled downtime approved by the Department.	Possible Hours Available = 720 Outage = 0 Actual Available = 692	Y
The Contractor's point-of-sale response time must average three seconds or less on all transaction.	Average Response Time = 0.60	Y
The Contractor must submit pharmacy payment invoices to the Department by Thursday at 12:00 noon Eastern time of each week. Invoices must accurately reflect any Department required coding.	Percent of Invoices to MDHHS Compliant = 100% Percent of Pharmacy Payments Compliant = 100%	Y
The Contractor must notify staff designated by the Department of performance issues impacting prior authorization processing within one hour of the Contractor's knowledge of system problems.	Possible Issues = 0 Actual Issues = 0 Notifications = 0	Y

MDHHS informed us it reviewed detailed supporting documentation from the contractor for the SLAs early in the contract's implementation phase in 2019; however, it no longer believed it was necessary because MDHHS obtained real-time access to the contractor's systems and reports (discussed in the following bullet).

- MDHHS's other monitoring activities regarding contract SLAs were not always documented.

MDHHS stated it can identify contractor performance irregularities through its real-time access to the contractor's systems, which MDHHS informed us are accessed by MDHHS staff daily as part of their regular job duties. For example, MDHHS asserts it could identify problems with the contractor's claims processing system availability or claims processing time through these efforts. However, MDHHS does not retain a log, checklist, or other evidence supporting the frequency or result of these monitoring activities to verify contractor compliance with SLA requirements. Under State procurement requirements, MDHHS is required to retain evidence supporting the completion of monitoring activities. Further, retaining evidence of its monitoring efforts is important in the event of the retirement or departure of MDHHS staff directly responsible for monitoring the contract.

MDHHS stated it did not have concerns with the contractor's performance during the audit period based on its monitoring efforts described in the bullets above; however, MDHHS informed us it recognizes the need to improve monitoring practices over the contractor's compliance with SLA requirements.

We consider this finding to be a material condition because of the:

- Significant lack of evidence of MDHHS monitoring activities over SLAs, despite DTMB's classification of the PBM contract as high risk.
- Noncompliance with State procurement policies designed to ensure public funds are managed efficiently, responsibly, and in the best interest to the public.

## **RECOMMENDATION**

We recommend MDHHS significantly improve its performance and documentation of monitoring of the PBM contractor's compliance with SLAs.

## **AGENCY PRELIMINARY RESPONSE**

MDHHS disagrees. Given the length of MDHHS's preliminary response, the response and our auditor's comments to Finding 2 are presented on page 35.

# SUPPLEMENTAL INFORMATION

UNAUDITED  
Exhibit 1A

## EFFORTS TO MONITOR ESTABLISHED SERVICE LEVEL AGREEMENTS FOR THE MEDICAID PHARMACY BENEFITS MANAGER CONTRACT

Michigan Department of Health and Human Services

PBM Contract SLAs

CONTRACT #190000000448



## STATE OF MICHIGAN

Contract No. 190000000448  
Pharmacy Claims Processing and/or Manufacture Drug Rebate Administration  
Pharmacy Benefits Manager Services (PBM)  
for Medicaid and Other Michigan Department of Health and Human Service Programs

### SCHEDULE C SERVICE LEVEL AGREEMENTS (SLAs)

#### A. Performance Guarantees/Service Level Agreement (SLA)

The Contractor must ensure that the SLAs are measurable using the Contractor's standard management information systems. The Department reserves the right to independently verify the Contractor's assessment of its performance, either by State employee or third party review. Disagreements regarding SLAs will be subject to Dispute Resolution, per Section 47 of the Standard Contract Terms. The SLAs in this document are related to on-going Services, and will apply throughout the duration of the Contract, including any optional renewal periods (if exercised).

#### B. Service Level Agreements (SLAs)

- (a) SLAs will be completed with the following operational considerations:
- (i) SLAs will not be calculated for individual Incidents where any event of Excusable Failure has been determined; Incident means any interruption in Services.
  - (ii) SLAs will not be calculated for individual Incidents where loss of service is planned and where the State has received prior notification or coordination.
  - (iii) SLAs will not apply if the applicable Incident could have been prevented through planning proposed by Contractor and not implemented at the request of the State. To invoke this consideration, complete documentation relevant to the denied planning proposal must be presented to substantiate the proposal.
  - (iv) Time period measurements will be based on the time Incidents are received by the Contractor and the time that the State receives notification of resolution based on 24x7x365 time period, except that the time period measurement will be suspended based on the following:
    1. Time period(s) will not apply where Contractor does not have access to a physical State Location and where access to the State Location is necessary for problem identification and resolution.
    2. Time period(s) will not apply where Contractor needs to obtain timely and accurate information or appropriate feedback and is unable to obtain timely and accurate information or appropriate feedback from the State.
- (b) Chronic Failure for any Service(s) will be defined as three unscheduled outage(s) or interruption(s) on any individual Service for the same reason or cause or if the same reason or cause was reasonably discoverable in the first instance over a rolling 30 day period. Chronic Failure will result in the State's option to terminate the effected individual Service(s) and procure them from a different vendor for the chronic location(s) with Contractor to pay the difference in charges for up to three additional months. The termination of the Service will not affect any tiered pricing levels.
- (c) Root Cause Analysis will be performed on any Business Critical outage(s) or outage(s) on Services when requested by the Project Manager. Contractor will provide its analysis within two weeks of outage(s) and provide a recommendation for resolution.
- (d) All decimals must be rounded to two decimal places with five and greater rounding up and four and less rounding down unless otherwise specified.

*This exhibit continued on next page.*

CONTRACT #19000000448 

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
1	<p>Contractor will complete all implementation actions prior to "go live" date and according to the timeline provided by the Contractor to the Department. The Contractor will received the Department sign-off that each action has been completed successfully. Implementation steps include the following, minimum items:</p> <ul style="list-style-type: none"> <li>• Benefit plan designs loaded, operable and tested;</li> <li>• Perform comprehensive systems testing (including interface testing with all third parties) and quality assurance audits, with results reported to the Department</li> <li>• Interface formats loaded and tested;</li> <li>• Operable and tested toll-free numbers;</li> <li>• Account Management, Help Desk, Prior Authorization, and any other required key staff hired and trained;</li> <li>• Established billing/banking requirements;</li> <li>• Complete notifications to pharmacies regarding contract change;</li> <li>• Each component must be met by an agreed upon deadline in an implementation timeline provided by the Contractor to the Department.</li> </ul> <p>Implementation action requirements may include other items necessary to meet the claims processing commencement date (TND)</p> <ul style="list-style-type: none"> <li>• Claims history, existing prior authorizations, and overrides shall be migrated to Contractors POS system</li> </ul>		Prior to start date	At the Department's discretion, the Contractor may be required to pay \$10,000 per day for each day full implementation is delayed by fault of the Contractor.	1
2	The Contractor must provide corrective action plans within five business days of the discovery of severe defects found through internal quality control reviews.	CAP received within five business days	Occurrence	\$1,000 per occurrence	1
3	The Contractor must provide online POS operations 24x7x365 available no less than 99.9% of the time – except for Contractor scheduled downtime approved by the Department.	99.9% Average Availability	Monthly	\$5,000 per month	1
4	The Contractor's POS response time must average three seconds or less on all transactions.	99.5% Average Response Time	Monthly	\$5,000 per month	1
5	The Contractor must notify staff designated by the Department of performance issues impacting POS adjudication within 15 minutes of the Contractor's knowledge of the system problems.	Compliant	Occurrence	\$5,000, at Departments discretion, may be assessed for delayed reporting.	1

*This exhibit continued on next page.*

**CONTRACT #19000000448** 

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
6	The Contractor must provide the Department with updates at regular intervals during a sustained downtime (other than regular scheduled or approved downtime by the Department). Upon full restoration, the Contractor must provide the Department with an analysis describing root cause and actions to mitigate future instances.	Report due within five business days of full restoration	Occurrence	Daily penalty, at Departments discretion, of \$1,000 per day. Calculation of penalty begins on the sixth business day.	1
7	The Contractor must submit pharmacy payment invoices to the Department by Thursday at 12:00 noon Eastern Time of each week and make pharmacy payments by Monday at 5:00 p.m. Eastern Time of each week. Schedules during Department closures may adjust the required timeframe. Invoices must accurately reflect any Department required coding (e.g. MAGI, Pay Code, etc.).	Payments made Monday	Weekly	\$500 per each day delayed	1
8	The Contractor must answer incoming calls, on average, within 30 seconds or less for its technical, clinical, beneficiary, MAC, and provider relations help lines.	Average speed of answer of 30 seconds or less	Monthly	\$1,000 per month	1
9	The Contractor must ensure an average call abandonment rate of 5% or less for its technical, clinical, beneficiary, MAC, and provider relations help lines.	Average of 5% or less abandonment rate	Monthly	\$1,000 per month	1
10	The Contractor must notify staff designated by the Department of performance issues impacting PA processing within one hour of the Contractor's knowledge of system problems.	Compliant	Monthly	\$3,000 per month	1
11	The Contractor must approve routine PA requests while the requester is still on the telephone.	100% Compliant	Monthly	\$1,000 per month	1
12	The Contractor must respond to PA requests escalated to the Contractor's pharmacist staff within one hour.	100% Compliant	Monthly	\$100 per day, per occurrence	1
13	The Contractor must respond to all other PA requests within 24 hours after receipt.	100% Compliant	Monthly	\$100 per day, per occurrence	1
14	The Contractor must provide all required documentation in their possession when an appeal (beneficiary, provider, etc.) is submitted by the due date on the appeal notice. The Contractor must represent the Department at the appeals hearing.	Occurrence	Occurrence	\$500 for each day delay if due to Contractor's responsibility	1
15	The Contractor must provide the draft CMS-required DUR Annual Report to the Department on or before April 1 of each year. The Contractor must provide the final CMS-required DUR Annual Report to the Department on or before June 1 of each year.	Compliant	Annually	\$3,000 annually	1

*This exhibit continued on next page.*

**CONTRACT #19000000448** 

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
16	The Contractor's claims processing accuracy must be 99.95% or greater. The Contractor must review a quarterly sample of at least 100 claims. Error definition includes any type of error (failure to apply plan design parameters such as co-payments, inaccurate eligibility application, payment application, coordination of benefits of third party liability, formulary, etc.) whether a payment or non-payment error. Each type of error is counted as one full error and no more than one error can be assigned to one claim.	99.95% average accuracy	Quarterly	Contractor will be held responsible for any overpayments that are made erroneously due to an error. Claims paid in error, at the Department's discretion, may be deducted from the Contractor monthly administration fee. In addition, \$500 per error penalty.	1
17	The Contractor must invoice 100% of participating manufacturers for federal, State supplemental, and Medicaid-like rebates no later than 60 days after the end of the quarter, or in compliance with the timelines of the federal government and the Department for generating manufacturer drug rebate invoices.	No later than 60 days	Quarterly	\$20,000 per quarterly manufacturer invoice	2
18	The Contractor must submit the manufacturer rebate invoice summary for the Department's approval at least three business days prior to invoicing participating manufacturers.	Summary on time	Quarterly	\$1,000 per quarter	2
19	The Contractor must ensure that all Drug Manufacturers are charged interest as stipulated in each manufacturer's respective Supplemental Drug Rebate Contract. Interest shall be calculated on only the Manufacturer's undisputed account balance unless written notification is provided by the Department to do otherwise.	As required	As required	Failure by Contractor to accrue interest on the date stipulated in the rebate agreements, at the Department's discretion, will result in a \$1,000 penalty for each non-compliant invoice issued.	2

*This exhibit continued on next page.*

**CONTRACT #19000000448** 

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
20	<p>The Contractor must generate and transmit, to CMS, a file of manufacturer rebate invoice information including original invoices, interest amounts, prior period adjustments, and adjustments resulting from resolved disputes quarterly after invoicing manufacturers, in a format specified by CMS.</p> <p>The Contractor must provide quarterly drug rebate information in a form compatible with the Department's submission of the Quarterly Expense Report of the Medicaid Budget and Expenditure System (CMS-64) reporting requirements on or before 15 days following the close of a quarter's end.</p> <p>The Contractor must measure and report its performance on this SLA quarterly. Measurement includes both provision of the CMS file of manufacturer rebate invoice information and drug rebate information for the CMS-64.</p>	Compliant	Quarterly	\$5,000 per quarter	2
21	The Contractor must deliver operational rebate reports to the Department within two business days after the reporting period or as otherwise specified by the Department.	Compliant	Monthly	\$500 per each day delayed	2
22	Contractor must deliver all required scheduled reports on time: weekly, quarterly, annually, etc.	Occurrence	Occurrence	Penalty of \$500, at the Department's discretion, may occur beginning on the 1st day after the report due date.	both
23	All requests for ad hoc reports must be completed within 10 business days of a request unless otherwise negotiated at the time of the Department's request.	Completion within 10 business days	Monthly	\$500 per occurrence for delay beyond 10 business days	both
24	Contractor must provide a weekly report detailing all checks remitted to providers on behalf of the Department that remain outstanding greater than 90 days.	Weekly Report	Weekly	\$500 per week	1
25	Contractor must ensure collection letters are sent to pharmacies that maintain an accounts-payable balance to the State greater than 60 days. These notices must be sent within five business days of becoming 60 days old.	Rolling 60 days	60 days	Failure to send notice within required timeframe may incur a \$100 per provider, per notice, at Department's discretion	1

*This exhibit continued on next page.*

**CONTRACT #19000000448** 

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
26	Contractor must provide a weekly report on collection activity to the Department. Collection notices must be maintained with original date sent, etc. for future documentation requests.	Weekly Report	Weekly	\$500 weekly	1
27	The Contractor's invoices for administrative and other fees submitted to the Department must be 100% accurate.	100% accurate	Monthly	\$1,000 per invoice	both
28	The Department's designated Key Personnel positions must not remain vacant or filled with an interim appointee longer than 60 days unless approved by the Department.	Compliant	Monthly	\$5,000 per vacancy beyond 60 days	both
29	The Contractor must submit an impact analysis to the Department within 30 calendar days of the publishing of a proposed HIPAA rule.	30 calendar days of published HIPAA rule	Monthly	\$3,000 per rule not received within 30 calendar days of publication	both
30	The Contractor must submit an implementation plan for acceptance by the Department within 30 calendar days of the publishing of a final or modified HIPAA rule.	30 calendar days after published rule	Quarterly	\$5,000 per rule not received within 30 calendar days of publication	both
31	The Contractor must receive (download) and transmit (upload) files via a dedicated and secure File Transfer Protocol (FTP) site (or as specified by the Department) and develop and deliver Department-approved load and error reports for each interface file. File download from the Department to the Contractor and file upload from the Contractor to the Department must be 100% accurate and timely by the day and time designated by the Department.	100% accurate and on time	Monthly	\$10,000 per month	both
32	All information provided to the Department, including, but not limited to: provider, reimbursement, and enrollee information shall be deemed confidential.	Contractor must report immediately (not to exceed 24 business hours) upon discovery of any occurrence where a breach may have occurred	Occurrence	\$2,500 per occurrence of breach	both
33	Contractor must report violations in access, use or disclosure of Protected Health Information (PHI) or report a security incident.	Contractor must report immediately (not to exceed 24 business hours) of knowledge of a PHI violation or a security incident	Occurrence	\$500 per occurrence, not to exceed \$10,000	both

Source: The OAG prepared this exhibit using MDHHS's PBM contract (Contract No. 19000000448).

EFFORTS TO MONITOR ESTABLISHED SERVICE LEVEL AGREEMENTS FOR THE  
MEDICAID PHARMACY BENEFITS MANAGER CONTRACT  
Michigan Department of Health and Human Services

PBM Contract SLA Revisions and Additions

SLAs 34 and 35 are new.

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
34	The Contractor will provide a monthly report providing the results of a high-level review that is performed on claim files that are received for rebate processing. This reasonableness check will provide MDHHS with an estimate of projected rebates for prior periods. This will be delivered to the client within 10 business days of receipt of the valid claim file.	Report Within 10 business days of receipt of the valid claim file.	Monthly	\$500 per Month	2
35	The Contractor must utilize pre-invoicing quality control measures to proactively reduce the likelihood of manufacturer disputes and improve accuracy of invoiced rebate amounts (e.g., quarter-to-quarter percent change in rebate amount invoiced by NDC; rebate amount exceeds reimbursed amount; quantity exceeds expected amounts, etc.).	Completion prior to requesting approval to mail invoices.	Quarterly	\$10,000 per Quarter	2

*This exhibit continued on next page.*

SLAs 7 and 20 were revised and split into an A and B.

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component
7A	The Contractor must submit pharmacy payment invoices to the Department by Thursday at 12:00 noon Eastern Time of each week. Schedules during Department closures may adjust the required timeframe. Invoices must accurately reflect any Department required coding (e.g., MAGI, Pay Code, etc.).	Payments made Monday	Weekly	\$1,000 per each day delayed. Penalty begins 12:01 pm Eastern Time	1
7B	The Contractor must submit pharmacy payment payments by Monday at 5:00 p.m. Eastern Time of each week. Schedules during Department closures may adjust the required timeframe. Invoices must accurately reflect any Department required coding (e.g., MAGI, Pay Code, etc.).	Payments made Monday	Weekly	\$1,000 per each day delayed. Penalty begins 5:01 pm Eastern Time.	1
20A	The Contractor must generate and transmit, to CMS, a file of manufacturer rebate invoice information including original invoices, interest amounts, prior period adjustments, and adjustments resulting from resolved disputes quarterly after invoicing manufacturers, in a format specified by CMS.  The Contractor must measure and report its performance on this SLA quarterly. Measurement includes both provision of the CMS file of manufacturer rebate invoice information and drug rebate information for the CMS-64.	Compliant	Quarterly	\$5,000 per quarter	2
20B	CMS-64 9r (as noted in Rebate Reports section of Appendix B): The Contractor must provide fully accurate and complete quarterly drug rebate information in a form compatible with the Department's submission of the Quarterly Expense Report of the Medicaid Budget and Expenditure System (CMS-64) reporting requirements on or before the 15 <sup>th</sup> day following the close of a quarter's end. Contractor shall notify the Department of any balance changes made between the 5 <sup>th</sup> and 15 <sup>th</sup> day following the close of a quarter's end.  The Contractor must measure and report its performance on this SLA quarterly.	Compliant	Quarterly	\$5,000 per business day that this SLA is not met, up to a maximum of \$10,000 per quarter.	2

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SLAs 21 and 22 were revised. SLAs 36 and 37 are new.

21	Rebate Production Reports (Excluding all other rebate reports outlined in other SLAs): The Contractor must deliver operational rebate reports to the Department within the turnaround times as noted in section 4.3.A.3 ("Reporting Package") after the reporting period or as otherwise specified by the Department.	Compliant	Monthly	\$1,000 per each business day delayed, up to a maximum of \$5,000 per quarter	2
22	Non-Rebate Production Reports: Contractor must deliver all required reports accurately and on time: weekly, quarterly, annually, etc. within the turnaround times as noted in section 4.3.A.3 ("Reporting Package") after the reporting period or as otherwise specified by the Department. For purposes of this SLA, accuracy shall mean that the report is delivered in the mutually agreed upon format and includes all data available at the point in time the report is generated.	Occurrence	Occurrence	Penalty of \$500 at the Department's discretion if any report is $\leq 2$ business day late. Penalty increases to \$1,000 if any report is $> 2$ business days late.	Both
36	The Contractor must accurately post all rebate payments to the appropriate program and national drug codes on a quarterly basis based on a manufacturers providing complete and accurate PQAS/ROSI,  For instances where external parties have not provided Contractor with all necessary information to accurately complete such posting, rebate payment shall be posted in accordance with MDHHS direction.  Any issues uncovered during normal course of business by Contractor or the Department, will be researched to determine if a correction is needed. Any issues requiring correction within the system, will be completed no later than the following invoice cycle following determination of any applicable correction.	100% accurate and on time	Quarterly	\$20,000 per untimely correction up to a maximum of \$40,000 per quarter	2
37	Monthly Collections Report (as noted in Rebate Reports section of Appendix B): The Contractor must provide a fully accurate monthly rebate payment reconciliation report no later than the 3 <sup>rd</sup> business day of each month. Department shall provide approval on the reconciliation no later than one (1) business day after Department's receipt of the operational balancing rebate report.	100% accurate and on time. Report due on the 3 <sup>rd</sup> business day of each month.	Monthly	\$5,000 per day	2

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SLA 38 is new and SLA language to Section I has been revised.

38	The Contractor must make available a fully accurate quarterly UROA report no later than the 15th day after the end of each quarter. The Department must be notified of any balance changes made between the 5th and 15th day following the close of a quarter's end.	100% accurate and on time. Report due on the 15th day after the end of each quarter.	Quarterly	\$5,000 per day	2
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- I. In the event that an SLA is missed for two consecutive Measurement Times, the service credit amount will be subject to double the amount for each consecutive Measurement Time period thereafter that the SLA is not achieved, and in accordance with any maximum service credit noted in an individual SLA. For example, if SLA 20A is missed in Quarter 1 a service credit of \$5,000 shall apply. In consecutive Quarter 2 of the same year the SLA is not achieved the quarterly service credit is doubled to \$10,000. Service Credit due of \$10,000 would then apply to each consecutive Measurement Times thereafter until the SLA is achieved. For SLAs that are missed in consecutive Measurement Times whereby it is not feasible for commercially reasonable efforts to remediate the issue by the next Measurement Time, Contractor and State shall establish a remediation plan and timeline through the corrective action process. Service credit increases in those instances will apply for consecutive Measurement Times the SLA is missed after the agreed up on remediation date.

Source: The OAG prepared this exhibit using MDHHS's PBM contract, including contract amendments (Contract No. 190000000448).

EFFORTS TO MONITOR ESTABLISHED SERVICE LEVEL AGREEMENTS FOR THE  
MEDICAID PHARMACY BENEFITS MANAGER CONTRACT  
Michigan Department of Health and Human Services

Excerpt from MDHHS's Contract Monitoring Plan for its PBM Contract  
Dated May 17, 2019

**Contract Monitoring Plan - Magellan  
Contract #190000000448**

**Introduction**

Active contract management of State contracts ensures compliance with the requirements of an executed contract. This section outlines and describes activities that are necessary for effective contract management.

Category Level and Monitoring Frequency  
Level 5 – Quarterly

Note: The contract consists of the following components:  
Component 1 – Claims Processing and Related Services  
Component 2 – PDL and Manufacturer Drug Rebate Administration

**1. Periodic Contract Monitoring**

Contractor may be periodically monitored against the following Contract Monitoring Report Criteria:

- a. Quality: Deliverables meet specifications
- b. Timeliness: Deliverables received on schedule
- c. Cost Control: Cost of Deliverables is at or below expected cost
- d. Staff Knowledge: Supplier staff knowledgeable
- e. Customer Service: Supplier staff helpful, prompt, and courteous
- f. Invoicing: Invoices are timely and accurate
- g. Overall Supplier Performance Rating

*This exhibit continued on next page.*

**Contract Monitoring Plan - Magellan  
Contract #190000000448**

**4. Service Level Agreements (SLAs)**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
Implementation	<p>Contractor will complete all implementation actions prior to "go live" date and according to the timeline provided by the Contractor to the Department. The Contractor will receive the Department sign-off that each action has been completed successfully. Implementation steps include the following, minimum items:</p> <ul style="list-style-type: none"> <li>• Benefit plan designs loaded, operable and tested;</li> <li>• Perform comprehensive systems testing (including interface testing with all third parties) and quality assurance audits, with results reported to the Department</li> <li>• Interface formats loaded and tested;</li> <li>• Operable and tested toll-free numbers;</li> <li>• Account Management, Help Desk, Prior Authorization, and any other required key staff hired and trained;</li> <li>• Established billing/banking requirements;</li> <li>• Complete notifications to pharmacies regarding contract change;</li> <li>• Each component must be met by an agreed upon deadline in an implementation timeline provided by the Contractor to the Department. Implementation action requirements may include other items necessary to meet the claims processing commencement date (TND)</li> <li>• Claims history, existing prior authorizations, and overrides shall be migrated to Contractors POS system</li> </ul>		Prior to start date	At the Department's discretion, the Contractor may be required to pay \$10,000 per day for each day full implementation is delayed by fault of the Contractor.	1	Desk Review of Work Product
CAPs	The Contractor must provide corrective action plans (CAP) within five business days of the discovery of severe defects found through internal quality control reviews.	CAP received within five business days	Occurrence	\$1,000 per occurrence	1	Desk Review of Work Product

*This exhibit continued on next page.*

**Contract Monitoring Plan - Magellan  
Contract #19000000448**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
Online POS uptime	The Contractor must provide online POS operations 24x7x365 available no less than 99.9% of the time – except for Contractor scheduled downtime approved by the Department.	99.9% Average Availability	Monthly	\$5,000 per month	1	Desk Review of Work Product
POS response time	The Contractor's POS response time must average three seconds or less on all transactions.	99.5% Average Response Time	Monthly	\$5,000 per month	1	Desk Review of Work Product
POS Performance Notice	The Contractor must notify staff designated by the Department of performance issues impacting POS adjudication within 15 minutes of the Contractor's knowledge of the system problems.	Compliant	Occurrence	\$5,000, at Departments discretion, may be assessed for delayed reporting.	1	Desk Review of Work Product
Root Cause Analysis report	The Contractor must provide the Department with updates at regular intervals during a sustained downtime (other than regular scheduled or approved downtime by the Department). Upon full restoration, the Contractor must provide the Department with an analysis describing root cause and actions to mitigate future instances.	Report due within five business days of full restoration	Occurrence	Daily penalty, at Departments discretion, of \$1,000 per day. Calculation of penalty begins on the sixth business day.	1	Desk Review of Work Product
Pharmacy Invoices & Payment	The Contractor must submit pharmacy payment invoices to the Department by Thursday at 12:00 noon Eastern Time of each week and make pharmacy payments by Monday at 5:00 p.m. Eastern Time of each week. Schedules during Department closures may adjust the required timeframe. Invoices must accurately reflect any Department required coding (e.g. MAGI, Pay Code, etc.).	Payments made Monday	Weekly	\$500 per each day delayed	1	Desk Review of Work Product
Help Line	The Contractor must answer incoming calls, on average, within 30 seconds or less for its technical, clinical, beneficiary, MAC, and provider relations help lines.	Average speed of answer of 30 seconds or less	Monthly	\$1,000 per month	1	Desk Review of Work Product
Help Line	The Contractor must ensure an average call abandonment rate of 5% or less for its technical, clinical, beneficiary, MAC, and provider relations help lines.	Average of 5% or less abandonment rate	Monthly	\$1,000 per month	1	Desk Review of Work Product

*This exhibit continued on next page.*

**Contract Monitoring Plan - Magellan  
Contract #19000000448**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
System Issue Notice	The Contractor must notify staff designated by the Department of performance issues impacting PA processing within one hour of the Contractor's knowledge of system problems.	Compliant	Monthly	\$3,000 per month	1	Desk Review of Work Product
Approvals	The Contractor must approve routine PA requests while the requester is still on the telephone.	100% Compliant	Monthly	\$1,000 per month	1	Desk Review of Work Product
Contractor Response time	The Contractor must respond to PA requests escalated to the Contractor's pharmacist staff within one hour.	100% Compliant	Monthly	\$100 per day, per occurrence	1	Desk Review of Work Product
Contractor Response time	The Contractor must respond to all other PA requests within 24 hours after receipt.	100% Compliant	Monthly	\$100 per day, per occurrence	1	Desk Review of Work Product
Hearing representation	The Contractor must provide all required documentation in their possession when an appeal (beneficiary, provider, etc.) is submitted by the due date on the appeal notice. The Contractor must represent the Department at the appeals hearing.	Occurrence	Occurrence	\$500 for each day delay if due to Contractor's responsibility	1	Desk Review of Work Product
DUR Annual Report	The Contractor must provide the draft CMS-required DUR Annual Report to the Department on or before April 1 of each year. The Contractor must provide the final CMS-required DUR Annual Report to the Department on or before June 1 of each year.	Compliant	Annually	\$3,000 annually	1	Desk Review of Work Product

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**Contract Monitoring Plan - Magellan  
Contract #19000000448**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
Claims Processing Accuracy	The Contractor's claims processing accuracy must be 99.95% or greater. The Contractor must review a quarterly sample of at least 100 claims. Error definition includes any type of error (failure to apply plan design parameters such as co-payments, inaccurate eligibility application, payment application, coordination of benefits of third-party liability, formulary, etc.) whether a payment or non-payment error. Each type of error is counted as one full error and no more than one error can be assigned to one claim.	99.95% average accuracy	Quarterly	Contractor will be held responsible for any overpayments that are made erroneously due to an error. Claims paid in error, at the Departments discretion, may be deducted from the Contractor monthly administration fee. In addition, \$500 per error penalty.	1	Desk Review of Work Product
Invoices	The Contractor must invoice 100% of participating manufacturers for federal, State supplemental, and Medicaid-like rebates no later than 60 days after the end of the quarter, or in compliance with the timelines of the federal government and the Department for generating manufacturer drug rebate invoices.	No later than 60 days	Quarterly	\$20,000 per quarterly manufacturer invoice	2	Desk Review of Work Product
Rebate Invoices	The Contractor must submit the manufacturer rebate invoice summary for the Department's approval at least three business days prior to invoicing participating manufacturers.	Summary on time	Quarterly	\$1,000 per quarter	2	Desk Review of Work Product

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**Contract Monitoring Plan - Magellan  
Contract #19000000448**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
Interest Calculations	The Contractor must ensure that all Drug Manufacturers are charged interest as stipulated in each manufacturer's respective Supplemental Drug Rebate Contract. Interest shall be calculated on only the Manufacturer's undisputed account balance unless written notification is provided by the Department to do otherwise.	As required	As required	Failure by Contractor to accrue interest on the date stipulated in the rebate agreements, at the Department's discretion, will result in a \$1,000 penalty for each non-compliant invoice issued.	2	Desk Review of Work Product
Rebate Information Reporting	<p>The Contractor must generate and transmit, to CMS, a file of manufacturer rebate invoice information including original invoices, interest amounts, prior period adjustments, and adjustments resulting from resolved disputes quarterly after invoicing manufacturers, in a format specified by CMS.</p> <p>The Contractor must provide quarterly drug rebate information in a form compatible with the Department's submission of the Quarterly Expense Report of the Medicaid Budget and Expenditure System (CMS-64) reporting requirements on or before 15 days following the close of a quarter's end.</p> <p>The Contractor must measure and report its performance on this SLA quarterly. Measurement includes both provision of the CMS file of manufacturer rebate invoice information and drug rebate information for the CMS-64.</p>	Compliant	Quarterly	\$5,000 per quarter	2	Desk Review of Work Product
Rebate Reports	The Contractor must deliver operational rebate reports to the Department within two business days after the reporting period or as otherwise specified by the Department.	Compliant	Monthly	\$500 per each day delayed	2	Desk Review of Work Product

*This exhibit continued on next page.*

**Contract Monitoring Plan - Magellan  
Contract #19000000448**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
Report Delivery	Contractor must deliver all required scheduled reports on time: weekly, quarterly, annually, etc.	Occurrence	Occurrence	Penalty of \$500, at the Department's discretion, may occur beginning on the 1st day after the report due date.	both	Desk Review of Work Product
Report Request Response	All requests for ad hoc reports must be completed within 10 business days of a request unless otherwise negotiated at the time of the Department's request.	Completion within 10 business days	Monthly	\$500 per occurrence for delay beyond 10 business days	both	Desk Review of Work Product
Weekly Reporting	Contractor must provide a weekly report detailing all checks remitted to providers on behalf of the Department that remain outstanding greater than 90 days.	Weekly Report	Weekly	\$500 per week	1	Desk Review of Work Product
Collections Notices	Contractor must ensure collection letters are sent to pharmacies that maintain an accounts-payable balance to the State greater than 60 days. These notices must be sent within five business days of becoming 60 days old.	Rolling 60 days	60 days	Failure to send notice within required timeframe may incur a \$100 per provider, per notice, at Department's discretion	1	Desk Review of Work Product
Weekly Collections Reporting	Contractor must provide a weekly report on collection activity to the Department. Collection notices must be maintained with original date sent, etc. for future documentation requests.	Weekly Report	Weekly	\$500 weekly	1	Desk Review of Work Product
Invoice Accuracy	The Contractor's invoices for administrative and other fees submitted to the Department must be 100% accurate.	100% accurate	Monthly	\$1,000 per invoice	both	Desk Review of Work Product
Key Personnel	The Department's designated Key Personnel positions must not remain vacant or filled with an interim appointee longer than 60 days unless approved by the Department.	Compliant	Monthly	\$5,000 per vacancy beyond 60 days	both	Desk Review of Work Product

**Contract Monitoring Plan - Magellan  
Contract #19000000448**

SLA	Performance Description	Minimum Requirement	Measurement Timeframe	Service Credit	Applies to Component	How will the deliverables be monitored?
Impact Analysis	The Contractor must submit an impact analysis to the Department within 30 calendar days of the publishing of a proposed HIPAA rule.	30 calendar days of published HIPAA rule	Monthly	\$3,000 per rule not received within 30 calendar days of publication	both	Desk Review of Work Product
Implementation Plan	The Contractor must submit an implementation plan for acceptance by the Department within 30 calendar days of the publishing of a final or modified HIPAA rule.	30 calendar days after published rule	Quarterly	\$5,000 per rule not received within 30 calendar days of publication	both	Desk Review of Work Product
Load & Error Reports	The Contractor must receive (download) and transmit (upload) files via a dedicated and secure File Transfer Protocol (FTP) site (or as specified by the Department) and develop and deliver Department-approved load and error reports for each interface file. File download from the Department to the Contractor and file upload from the Contractor to the Department must be 100% accurate and timely by the day and time designated by the Department.	100% accurate and on time	Monthly	\$10,000 per month	both	Desk Review of Work Product
Duty of Confidentiality	All information provided to the Department, including, but not limited to: provider; reimbursement, and enrollee information shall be deemed confidential.	Contractor must report immediately (not to exceed 24 business hours) upon discovery of any occurrence where a breach may have occurred	Occurrence	\$2,500 per occurrence of breach	both	Desk Review of Work Product
Violation Reporting	Contractor must report violations in access, use or disclosure of Protected Health Information (PHI) or report a security incident.	Contractor must report immediately (not to exceed 24 business hours) of knowledge of a PHI violation or a security incident	Occurrence	\$500 per occurrence, not to exceed \$10,000	both	Desk Review of Work Product

Source: The OAG created this exhibit using excerpts from the PBM contract monitoring plan obtained from MDHHS.

# AGENCY PRELIMINARY RESPONSES

## EFFORTS TO MONITOR ESTABLISHED SERVICE LEVEL AGREEMENTS FOR THE MEDICAID PHARMACY BENEFITS MANAGER CONTRACT Michigan Department of Health and Human Services

### Finding 1 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains MDHHS's preliminary response to Finding 1 and our auditor's comments providing further clarification and context where necessary.

#### Finding 1: Significant improvement needed in MDHHS's PBM contract monitoring plan and written monitoring procedures for contract SLAs.

MDHHS provided us with the following response:

##### AGENCY PRELIMINARY RESPONSE

*MDHHS disagrees. MDHHS has monitoring processes in place to continuously monitor PBM contractor performance, including accurate and timely pharmacy reimbursement, regulatory compliance, and data security. MDHHS serves as the program manager for the PBM contract and has consistently fulfilled its oversight role by conducting regular monitoring of the contractor's performance throughout the audit period by completing ad hoc, monthly and quarterly desk reviews. Also, MDHHS has a monthly invoice procedure to assess SLA credits due to noncompliance identified by the desk reviews, and maintained documentation to support the assessment of penalties during the audit period.*

*In accordance with MDHHS policy and State Budget Office Financial Management Guide requirements, MDHHS annually conducts a risk assessment of the vendor, obtains and documents the review of a service organization control report completed by an independent certified public accounting firm that provides assurance over the suitability and design of the PBM's internal controls relevant to financial reporting. As part of the review of the service organization control report, MDHHS documents complementary user entity controls that are in place within MDHHS to ensure that vendor internal controls are operating effectively. In addition, as part of the required Internal Control Evaluation process, MDHHS provides an overview of corresponding projects, processes, and procedures in place to ensure controls over pharmacy transactions are sufficient.*

*For part a., MDHHS disagrees. The contract monitoring plan was developed in collaboration with DTMB as part of a DTMB-facilitated procurement process and included SLAs as part of the CMP. Consistent with procurement guidance, the CMP is intended to document overall contract performance monitoring requirements rather than detailed descriptions of monitoring methods for each Service Level Agreement (SLA). DTMB, as contract administrator, is responsible for maintaining all versions of the plan, while MDHHS, as program manager, is responsible for maintaining all other documentation required by the plan and implementing monitoring activities.*

##### AUDITOR'S COMMENTS TO AGENCY PRELIMINARY RESPONSE

These statements do not address the department's need for significant improvements in the PBM contract monitoring plan and establishment of written procedures for monitoring PBM contract SLAs and, therefore, are irrelevant to our Finding 1 recommendation. Instead, MDHHS's commentary speaks to broad performance monitoring activities, which were also lacking as described in Finding 2.

We disagree with these statements. MDHHS states the contract monitoring plan is not intended to include detailed descriptions, suggesting its current contract monitoring plan that states MDHHS would perform "desk review of work product" for all 40 SLAs is sufficient. However, we noted DTMB training explains the contract monitoring plan should describe how each item will be monitored and provides examples demonstrating that a greater level of detail is expected. MDHHS also states DTMB is "responsible for maintaining all versions of the plan," suggesting DTMB alone is responsible for updating the contract monitoring plan when contract changes occur. However, the contract monitoring plan is developed through *collaboration* between MDHHS and DTMB, which we believe remains true for updates to the contract monitoring plan. Ultimately, as program manager and subject matter experts, it is MDHHS's responsibility to define how the contract should be monitored.

For part b., MDHHS disagrees that the finding rises to the level of a material condition and material noncompliance, however, MDHHS agrees there are opportunities for strengthening monitoring practices and will develop written monitoring procedures to support standardized oversight of the SLAs. MDHHS has established and maintains numerous internal control processes, in addition to real-time system access, to monitor the performance of vendor activities. Internal controls over pharmacy transactions, including controls in place over vendor activities, are documented and reviewed as part of the required Internal Control Evaluation process. In addition, the contract requires the vendor to produce a monthly performance report card to report on its actual performance at the direction of MDHHS. Furthermore, MDHHS has established platforms for pharmacies, providers, beneficiaries, and other stakeholders to readily report any claims processing or other concerns that may warrant additional contract performance monitoring or levying of SLAs.

Assessment of materiality is based on auditor judgement in relation to the audit objective. The Finding indicates the reasons we consider it a material condition, and MDHHS's response provides no additional information to warrant changing our conclusion.

We obtained a thorough understanding of MDHHS's processes for monitoring PBM contract SLAs and the results of our review are reported in Findings 1 and 2. The "numerous internal control processes" mentioned by MDHHS do not appear to relate to monitoring contract SLAs, although its response is unclear.

As reported in Finding 2, MDHHS did not maintain documentation to support it completed reviews with its real-time system access.

The Internal Control Evaluation process mentioned by MDHHS is a Statewide, biennial evaluation and reporting process overseen by OIAS. The process requires each department to conduct a self-assessment intended to evaluate and report on departmental internal control systems. The reviews and documentation resulting from the biennial Internal Control Evaluation process does not replace or eliminate the need for MDHHS to establish and maintain an ongoing internal control system, including contract monitoring plans and related policies/procedures.

As noted above, these statements are irrelevant to our Finding 1 recommendation. Instead, MDHHS's commentary speaks to performance monitoring activities, which were also lacking as described in Finding 2.

Although MDHHS indicates disagreement with the Finding, it acknowledges there are opportunities for strengthening monitoring practices and states it plans to develop written monitoring procedures.

We considered the agency response and based on our comments above, the Finding stands as written.

[Go Back to Finding 1](#)

[Go to Finding 2](#)

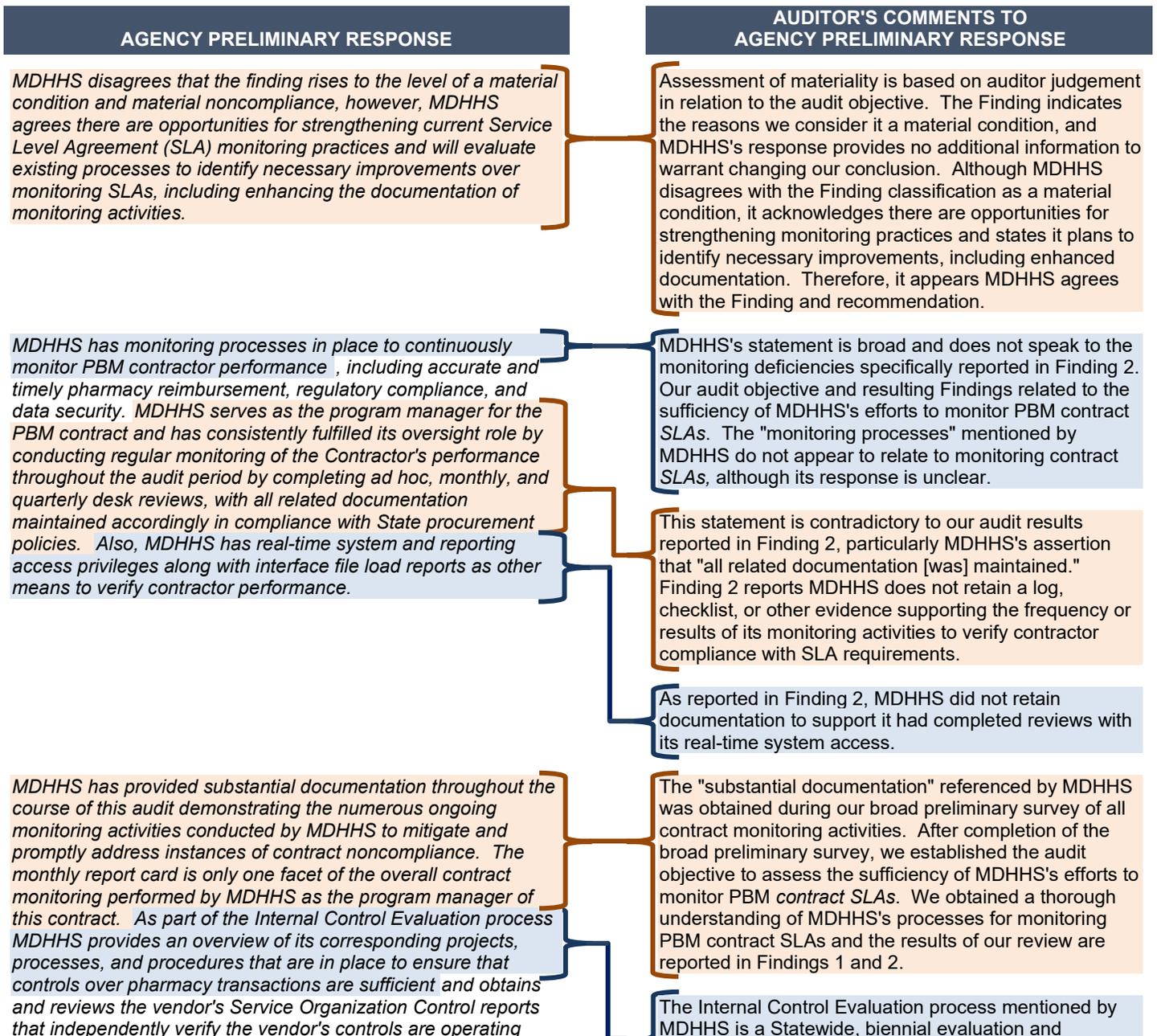
**EFFORTS TO MONITOR ESTABLISHED SERVICE LEVEL AGREEMENTS  
FOR THE MEDICAID PHARMACY BENEFITS MANAGER CONTRACT**  
Michigan Department of Health and Human Services

Finding 2 Agency Preliminary Response and Auditor's Comments to Agency Preliminary Response

This section contains MDHHS's preliminary response to Finding 2 and our auditor's comments providing further clarification and context where necessary.

**Finding 2: Performance and documentation of monitoring activities over the contractor's compliance with SLAs needs significant improvement.**

MDHHS provided us with the following response:



*effectively. Furthermore, MDHHS has established platforms for pharmacies, providers, beneficiaries, and other stakeholders to readily report any claims processing or other concerns that may warrant additional contract performance monitoring or levying of SLAs. MDHHS has required formal corrective action plans when warranted, in addition to assessment of penalties during the audit period that provide assurance that program integrity and contract compliance are maintained.*

reporting process overseen by OIAS. The process requires each department to conduct a self-assessment intended to evaluate and report on departmental internal control systems. The reviews and documentation resulting from the biennial Internal Control Evaluation process *does not* replace or eliminate the need for MDHHS to establish and maintain an ongoing internal control system, including contract monitoring plans and related policies/procedures.

While we agree MDHHS has required corrective action plans and generally enforced service credits during the audit period, the monitoring deficiencies reported in Finding 2 limit MDHHS's ability to conclude that "program integrity and contract compliance are maintained" as it is possible additional corrective action plans and/or service credits could have also been warranted.

We considered the agency response and based on our comments above, the Finding stands as written.

Go Back to Finding 2

## **AGENCY DESCRIPTION**

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MDHHS's Pharmacy Management Division is responsible for overseeing the PBM contract, including monitoring established SLAs. MDHHS's PBM contract was originally executed with Magellan Medicaid Administration, Inc, effective March 1, 2019. Subsequently, Prime Therapeutics State Government Solutions, LLC acquired Magellan and became the PBM contractor effective October 1, 2024. The contract has a total value of approximately \$82 million for the roughly seven-and-a-half-year period ending September 30, 2026.

As of January 29, 2026, MDHHS's Pharmacy Management Division had six full-time employees responsible for managing the PBM contract.

## AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

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### AUDIT SCOPE

To examine the records and processes related to MDHHS's efforts to monitor the SLAs identified in the Medicaid PBM contract. We conducted this performance audit\* in accordance with 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As part of the audit, we considered the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

### PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2023 through June 30, 2025.

### METHODOLOGY

We conducted a preliminary survey to gain an understanding of MDHHS's operations related to its PBM contract and to formulate a basis for establishing the audit objective, scope, and methodology. During our preliminary survey, we:

- Interviewed applicable MDHHS management and staff to obtain an understanding of their roles, responsibilities, and activities related to efforts to monitor established SLAs for the Medicaid PBM contract.
- Reviewed applicable *Michigan Compiled Laws* and internal policies and procedures, where available.
- Obtained the Medicaid PBM contract to gain an understanding of the contract SLA requirements.
- Reviewed DTMB's MPPM and published guidance to gain an understanding of State requirements for contract monitoring.
- Obtained MDHHS's PBM contract monitoring plan to evaluate the SLA monitoring activities included in the plan.

### OBJECTIVE

To assess the sufficiency of MDHHS's efforts to monitor SLAs established in the Medicaid PBM contract.

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\* See glossary at end of report for definition.

To accomplish this objective, we:

- Obtained an understanding of MDHHS's monitoring activities over PBM contract SLA requirements, including its:
  - Access to the PBM contractor's prepared reports and systems.
  - Receipt of a contractor-prepared monthly performance report card and any independent verification of the self-asserted compliance (or noncompliance) with SLA requirements.
  - Documentation of contract monitoring activities.
- Evaluated whether MDHHS updated its PBM contract monitoring plan to reflect contract changes resulting from amendments occurring from October 1, 2020 through August 26, 2025.
- Reviewed contract monitoring reports from October 1, 2023 through June 30, 2025 to determine whether MDHHS completed and certified each report after requested by DTMB.
- Reviewed the contractor's monthly performance report card to evaluate which SLA requirements were subject to the contractor's self-assessment. For the SLAs included on the performance report card, we:
  - Obtained the 21 monthly performance report cards from October 1, 2023 through June 30, 2025 and:
    - Evaluated the contractor's timeliness in submitting the performance report cards.
    - Reviewed the contractor's self-asserted compliance (or noncompliance) with the SLA requirements. For instances of self-reported noncompliance, we ensured MDHHS:
      - Accurately calculated and enforced service credits.
      - Required the contractor to submit corrective action plans, when applicable.
  - Requested documentation from MDHHS to support an independent verification of the contractor's self-asserted compliance with the SLA requirements.
- Requested documentation from the PBM contractor to assess its self-asserted compliance with selected SLAs for

certain months or quarters from October 1, 2023 through June 30, 2025, including the SLA requirements for:

- Online point-of-sale operations to maintain 99.9% availability (SLA 3), for which we randomly and judgmentally sampled five months.
- Online point-of-sale transaction response times to average three seconds or less on all transactions (SLA 4), for which we randomly sampled five months.
- Claims processing accuracy of 99.95% based on the contractor's review of at least 100 claims (SLA 16), for which we randomly sampled two quarters.
- MDHHS to approve manufacturer rebate invoice summaries at least three business days prior to invoicing participating manufacturers (SLA 18), for which we randomly sampled two quarters.

Our random samples were selected to eliminate bias and enable us to project the results to the respective populations. Our judgmental samples were selected to ensure representativeness, and we could not project those results to the respective populations.

## **CONCLUSIONS**

We base our conclusions on our audit efforts and any resulting material conditions or reportable conditions\*.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

## **AGENCY RESPONSES**

Our audit report contains 2 findings and 3 corresponding recommendations. MDHHS's preliminary response indicates it disagrees with all of the recommendations.

The agency preliminary response following each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* requires an audited agency to develop a plan to comply with the recommendations and submit it to SBO upon audit completion. The State of Michigan Financial Management Guide (Part VII, Chapter 3, Section 100) requires the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to OIAS, SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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\* See glossary at end of report for definition.

**SUPPLEMENTAL  
INFORMATION**

Our audit report includes supplemental information presented as Exhibits 1A, 1B, and 2. Our audit was not directed toward expressing a conclusion on this information.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>auditor's comments to agency preliminary response</b>	Comments the OAG includes in an audit report to comply with <i>Government Auditing Standards</i> . Auditors are required to evaluate the validity of the audited entity's response when it is inconsistent or in conflict with the findings, conclusions, or recommendations. If the auditors disagree with the response, they should explain in the report their reasons for disagreement.
<b>contract monitoring plan</b>	A document required by the MPPM outlining how a contract should be monitored after it is executed. Monitoring plans are designed to increase fiduciary responsibility and to ensure the deliverables, as described in the contract, are received before payment is made to the vendor.
<b>contract monitoring report</b>	A document which must be submitted periodically by the program manager according to the category level of the contract; the higher the risk (and category level) the more frequently the reports are required.
<b>DTMB</b>	Department of Technology, Management, and Budget.
<b>effectiveness</b>	Success in achieving mission and goals.
<b>efficiency</b>	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
<b>internal control</b>	The plan, policies, methods, and procedures adopted by management to meet its mission, strategic plan, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
<b>material condition</b>	A matter, in the auditor's judgment, which is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
<b>MDHHS</b>	Michigan Department of Health and Human Services.

<b>MPPM</b>	Michigan Procurement Policy Manual.
<b>PBM</b>	pharmacy benefits manager.
<b>performance audit</b>	An audit which provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
<b>reportable condition</b>	A matter, in the auditor's judgment, less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
<b>service level agreement (SLA)</b>	An agreement between the State and contractor which establishes financial incentives to address contract administration issues and details the responsibilities and expectations of the contractor, the metrics the deliverables will be measured by, and credits that will be implemented should the agreement not be met by the contractor.







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