



## OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Rob Sand  
Auditor of State

### NEWS RELEASE

**FOR RELEASE:** June 10, 2026

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Auditor of State Rob Sand today released a report on Pharmacy Benefit Manager (PBM) practices related to Iowa Medicaid.

While a specific amount of harm to Iowa Medicaid could not be proven due to limitations placed on the Auditor's access to information and the comingling of Medicaid and non-Medicaid claims, data that *was* provided indicates effective rate reconciliations for three years equated to approximately \$100 million in back-end value for just one of the three PBMs analyzed.

The data from 2019 to 2021 shows PBMs employed by Iowa Managed Care Organizations (MCOs) utilized an "effective rate" pricing model, which allows PBMs to reconcile prescription drug costs at the end of the year and "clawback" payments previously made to pharmacies. This recalculation has been shown in other states to result in "spread pricing," a practice prohibited by Iowa Medicaid, in which the payment from the MCO to the PBM vastly exceeds the amount the PBM pays the pharmacy. In sum, PBMs may be using the same end-run as they use in other states to skirt a ban on pricing that exploits taxpayers: burying the banned practice in unavailable and convoluted data across an entire year.

This practice is a misuse of tax dollars. It increases the cost of prescription drugs for consumers, undercuts Iowa Medicaid's ability to negotiate capitation rates (the fixed amount paid to MCOs), devalues pharmacy networks, and reduces the quality of care for beneficiaries.

Sand also reported that the passage of Senate File 478 and the inability or unwillingness of the PBMs to provide critical financial records and other information prevented a complete evaluation of compliance and financial practices. This raises additional concerns about transparency, broader accountability, and adherence to Medicaid and Children's Health Insurance Program requirements.

Sand recommended the following to improve the administration and oversight of tax dollars:

- Adoption of Medicaid-specific claim networks and uniform contract terms.
- Prohibiting annual reconciliations.
- Requiring PBMs to produce all data necessary for future investigations.
- Mandating full audit access to PBM financial records and pricing models under state plans.
- Implementing stricter penalties for non-compliance with Medicaid rules.
- Requiring greater accountability from MCOs in managing PBMs.

**REPORT OF INVESTIGATION INTO  
PHARMACY BENEFIT MANAGER CLAIMS DATA  
RELATED TO IOWA MEDICAID**

**FOR THE PERIOD JULY 1, 2019 THROUGH JUNE 30, 2021**

## Table of Contents

|                           | <u>Page</u> |
|---------------------------|-------------|
| Auditor of State's Report | 3-4         |
| Investigative Summary:    |             |
| Background Information    | 5           |
| Key Iowa Findings         | 6           |
| Recommendations           | 7           |
| Policy Implications       | 8           |



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### Auditor of State's Report

To Director Larry Johnson  
Iowa Department of Health and Human Services:

The Office of Iowa Auditor of State has been engaged in a years-long review of the practices of pharmacy benefit managers (PBM) related to Iowa Medicaid. Specifically, the Office has been working to ensure that PBMs are not engaged in prohibited actions in our state, specifically examining potential undisclosed and withheld “effective rate reconciliations. These reconciliations, or “clawbacks” as they are, misdirect taxpayer dollars away from Iowans and towards the PBMs.

The findings outlined in this report highlight–significant concerns about compliance, financial integrity, and oversight within the Iowa Medicaid and Children’s Health Insurance Program (CHIP). We performed the following procedures:

- (1) Analyzed Iowa Medicaid managed care data from information available via the State Drug Utilization Data (SDUD), maintained by the Centers for Medicare and Medicaid Services (CMS);
- (2) Engaged 3Axis Advisors to analyze pharmacy claim adjudication process and a signed a Business Association Agreement with 3Axis;
- (3) Reviewed claims records related to PBMs fulfilling pharmacy claims in Iowa, including CVS, Envolve, Express Scripts (ESI), and IngenioRx;
- (4) Obtained additional data to evaluate pharmacy expenditures and payment integrity in Iowa;
- (5) Examined provider manuals, reconciliation reports between point-of-sale (POS) payments to pharmacy groups and net payments to pharmacy groups after effective rate reconciliations, and transactional claims data; and
- (6) Subpoenaed additional information from PBMs, and reviewed data from PBMs asserted to be trade secrets.

The inability or unwillingness of the PBMs to provide critical financial records and other information prevented a complete evaluation of compliance and financial practices. This creates additional concerns about transparency, broader accountability, and adherence to program requirements.

However, the data we were able to obtain shows PBMs employed by Iowa Managed Care Organizations (MCOs) utilized an “effective rate” pricing model. This model allows PBMs to reconcile prescription drug costs, typically at the end of the year, and “clawback” payments previously made to pharmacies. This recalculation has been shown in other states to result in “spread pricing,” a practice prohibited by Iowa Medicaid, in which the payment from the MCO to the PBM vastly exceeds the amount the PBM pays the pharmacy. In sum, PBMs may be using the same end-run as they use in other states to skirt a ban on pricing that exploits taxpayers: burying the banned practice in unavailable and convoluted data across an entire year.

This practice is a misuse of tax dollars. It increases the cost of prescription drugs for consumers, undercuts Iowa Medicaid’s ability to negotiate capitation rates (the fixed amount paid to MCOs), devalues pharmacy networks, and reduces the quality of care for Iowans.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures or had we performed an audit of financial statements of Iowa Medicaid, other matters might have come to our attention that would have been reported to you.

I would welcome the opportunity to discuss these findings further and provide additional context or recommendations. Please feel free to contact me. Thank you for your attention to this urgent matter.

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and "S".

Rob Sand  
Auditor of State

June 10, 2026

# Report on Special Investigation of Pharmacy Benefit Managers (PBMs)

## Investigative Summary

### **Background Information**

In recent years, states across the country have worked to get a better understanding of the \$500+ billion PBM marketplace and its impact on access to medicine.<sup>i</sup> In 2018, the state of Ohio found that PBMs were engaged in a practice known as “spread pricing,” where PBMs operating on behalf of the state’s managed care program were found to be paying local pharmacy providers one rate but then billing the state and its managed care plans a higher rate, and then pocketing the undisclosed difference, which was approximately \$245 million in just one year of their Medicaid program.<sup>ii iii</sup>

This controversial finding in Ohio set off a wave of investigations nationally for spread pricing practices that can inflate prescription drug costs and plan capitation rates, devalue the reimbursement received by pharmacy providers, warp PBM incentive alignment, and distort plan medical loss ratios. Over the last few years, audits and investigations of PBM spread pricing have found hundreds of millions of dollars in added prescription drug costs in states like Kentucky, Georgia, Virginia, Maryland, and Florida.<sup>iv v vi vii viii</sup>

After the state of Ohio prohibited spread pricing, PBMs were found to engage in other tactics that subverted the state’s intent to streamline their Medicaid managed care program. Those included tacking higher transaction fees onto pharmacy claims, creating more favorable payments for drugs filled at PBM-affiliated pharmacies, and deploying back-end reconciliations or clawbacks that altered the net pharmacy payment months after the medicines were dispensed to patients.<sup>ix x xi</sup> Similar issues have been echoed within just the last few months in Pennsylvania, Texas, and by the Federal Trade Commission.<sup>xii xiii xiv</sup>

The United States Office of Inspector General (OIG) released an audit report of the [Compass Rose Health Plan](#), which provides an excellent overview of these practices and how other auditors have characterized this issue. In particular, the section on “Pass-through of retail pharmacy discounts” provides a clear explanation of the impact of these practices.<sup>xv</sup>

## Key Iowa Findings

### Prohibited Pricing Practices

PBMs employed by Iowa Medicaid Managed Care Organizations (MCOs) employ an “effective rate” pricing model that reduced the final amounts paid to pharmacies after year-end recalculations. This practice resulted in instances of unallowable spread pricing, where the MCOs – and by extension, the state – were charged more than what was ultimately paid to pharmacies.

### Financial Impact

Although a specific harm to Iowa Medicaid could not be calculated due to data access limitations (see Scope Limitations), available data identifies that the three-year scope of effective rate reconciliations for just one PBM equated to approximately \$100 million in back-end value. This means that payers like Iowa Medicaid would identify costs as higher than PBM net payments to pharmacies.

### Scope Limitations

This office was denied access to critical financial records and systems, preventing a full evaluation of compliance and financial practices. PBMs have claimed their pricing structures are subject to trade secret protection, limiting our ability to both access data and report on our findings. While we are confident in the overall conclusions based on the data we were able to access, we are not able to provide specific data due to these restrictions. In addition, we do not want to single out the single PBM that at least somewhat cooperated with our effort, so they are not named in this report; this also prevents them from suing the State of Iowa for trade secrets violations. The scope limitations on our work raise concerns about broader accountability and adherence to Medicaid and CHIP requirements.

## Effective Rates

A pricing method used by a pharmacy benefit manager (PBM) where they adjust the amount they pay to pharmacies, typically at the end of the year. Initially, the PBM reimburses pharmacies for prescription claims at a certain rate. Later, they recalculate these payments using a different "effective rate." Any difference between aggregate paid amounts to pharmacies and the contracted effective rate guarantee can require the PBMs to pay added dollars to the pharmacies if those pharmacies were underpaid relative to the guarantee or require pharmacies to pay back the difference if they've been overpaid during the year.

This process means the PBM can keep more money than originally perceived by the plan sponsor, and they do not always pass the savings back to the health plans (like Iowa Managed Care), which can result in higher costs for the health plans than what pharmacies were actually paid.

## Recommendations

- Require Iowa Medicaid PBMs adopt Medicaid-specific networks that cannot include claims from non-Iowa Medicaid sources, nor Iowa non-Medicaid sources.
  - Requiring Medicaid-specific networks for Iowa Medicaid will make future attempts at reconciling payments easier by removing a key form of variability in payment (the intermixing of commercial and Medicaid claims) and provide greater line-of-sight related to Iowa Medicaid payments.
- Remove variability in PBM contract terms.
  - Creating a requirement that limits the number of unique networks that a PBM can establish with a Pharmacy Group would create fewer variables to analyze. The fact that PBMs can have dozens of variable payment terms with a single pharmacy group suggests a great deal of payment segmentation is occurring in the market, potentially exposing payers of all types to various payments as a simple function of variability in contracting (and not variability in actual drug prices). This appears to be an artificial source of pricing variability particularly when comparisons are made to groups with far fewer unique contracts with the PBM (i.e., as few as two).
- Prohibit the use of annual reconciliations.
  - Require all PBM payments to pharmacies be at the contracted rate for the network the claim is adjudicated against. To support this, require that the PBM populate on all reports / claims data to the pharmacy the network the claim is paid against to allow comparison to contract terms to be made and to provide greater oversight and transparency of payments.
- Require the PBMs to produce additional data to auditors.
  - PBMs should be required to produce a claims file that details all payments and charges made on the claim, inclusive of the network the claim was adjudicated against, the contract terms governing that payment, and the charge to the health plan of that claim. If the claim was involved in a retrospective reconciliation, the amount of the reconciliation should be made clear in the data, and the total amount of reconciliation should be compared against the total amounts identified in the pharmacy group contracting. It is unreasonable to assume that payment in this complex system is appropriate given the variables that are created to add complexity to the system that would not appear necessary to properly pay and adjudicate claims. Sufficient data has been produced to demonstrate that Iowa Medicaid claims were involved in reconciliations; however, the financial harm of these claims remains unknown due to the PBM-to-pharmacy payment complexity (that only exists because PBMs did not pay the claims per the contract appropriately to begin with).
- Ensure that all necessary data and access is granted to the Iowa Auditor's office as needed for future investigation.
  - PBMs, MCOs, and all other contractors and subcontractors of state agencies should be compelled to provide full and unrestricted access to the State Auditor's office to facilitate thorough investigations. Given that the Texas Office of Inspector General (OIG) and the Iowa Auditor's office both faced significant challenges in accessing critical data and systems related to similar PBM practices, it is clear that additional measures are necessary. To address this, implementing stricter compliance requirements and enforcing penalties for non-responsiveness should be prioritized to ensure accountability and transparency in these operations.

## **Policy Implications**

These findings underscore the urgent need for policies to strengthen oversight of PBM practices within Iowa Medicaid and CHIP. Potential measures include:

- Mandating full audit access to PBM financial records and pricing models under state plans, within the Auditor's existing confidentiality requirements.
- Implementing stricter penalties for non-compliance with Medicaid rules.
- Requiring greater accountability from MCOs in managing PBM relationships.

Note that this Office's findings resemble those previously reported in Ohio and recently reported by the Texas OIG. The reported practices in Ohio, Texas, and now Iowa, have a direct impact on the financial integrity of Medicaid and CHIP, increasing costs to taxpayers while reducing the quality of care for Iowans. I urge you to review these findings and consider policy measures to address these critical issues.

While specific harm to Iowa Medicaid could not be proven due to limitations placed on the Auditor's access to information and the comingling of Medicaid and non-Medicaid claims, data that *was* provided indicates that effective rate reconciliations for the three years analyzed<sup>xvi</sup> equated to approximately \$100 million in back-end value for just *one* of the three PBMs analyzed.

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<sup>i</sup> Rawal, J. “Pharmacy Benefit Management Market Size, Share & Industry Analysis, By Service (Specialty Pharmacy Services, Benefit Plan Design & Administration, Pharmacy Claims Processing, Formulary Management, and Others), By Service Provider (Insurance Companies, Retail Pharmacies, and Standalone PBMs), and Regional Forecast, 2024-2032” Fortune Business Insights. January 13, 2025. Available from: <https://www.fortunebusinessinsights.com/pharmacy-benefit-management-pbm-market-103496>

<sup>ii</sup> Ohio Auditor of State. “Auditor’s Report: Pharmacy Benefit Managers Take Fees of 31% on Generic Drugs Worth \$208M in One-Year Period.” August 16, 2018. Available from: <https://ohioauditor.gov/news/pressreleases/details/5042>

<sup>iii</sup> Schladen, M., Sullivan, L. “Ohio taxpayers may be paying twice for the same Medicaid drug services.” The Columbus Dispatch. October 7, 2018. Available from: <https://stories.usatodaynetwork.com/sideeffects/taxpayers-may-paying-twice-medicaid-drug-services/>

<sup>iv</sup> Langreth, R. “Drug Middlemen Took \$123.5 Million in Hidden Fees, State Claims.” Bloomberg. February 21, 2019. Available from: <https://www.bloomberg.com/news/articles/2019-02-21/drug-middlemen-took-123-5-million-in-hidden-fees-state-claims>

<sup>v</sup> Langreth, R. “Drug Middlemen Face State Probes Over Complex Pricing System.” Bloomberg. April 9, 2019. Available from: <https://www.bloomberg.com/news/articles/2019-04-09/drug-middlemen-face-state-probes-over-complex-pricing-system>

<sup>vi</sup> Kimsey, K. “Report on Managed Care Pharmacy Benefit (PBM) Transparency Report.” Commonwealth of Virginia Department of Medical Assistance Services. October 1, 2019. Available from: <https://rga.lis.virginia.gov/Published/2019/RD593/PDF>

<sup>vii</sup> Gruber, VL. “Maryland Department of Health Pharmacy Services Audit Report.” August 2020. Available from: <https://www.ola.state.md.us/umbraco/Api/ReportFile/GetReport?fileId=5f513421a1ce580c50fe694b>

<sup>viii</sup> Silverman, E. “Florida finds pharmacy benefit managers are benefiting from a lucrative profit center.” STAT. December 9, 2020. Available from: <https://www.statnews.com/pharmalot/2020/12/09/florida-pbm-pharmacy-medicaid/>

<sup>ix</sup> Candisky, C. “CVS Caremark hitting pharmacists with fee increase.” The Columbus Dispatch. Available from: <https://stories.usatodaynetwork.com/sideeffects/cvs-caremark-hitting-pharmacists-fee-increase/>

<sup>x</sup> Candisky, C. “Ohio Medicaid officials to crack down on PBM specialty drug practice.” The Columbus Dispatch. April 30, 2019. Available from: <https://stories.usatodaynetwork.com/sideeffects/ohio-medicaid-officials-crack-pbm-specialty-drug-practice/>

<sup>xi</sup> Rowland, D. “I just see fraud all over this: Insiders detail how clawbacks drive up drug prices, hurt pharmacies.” The Columbus Dispatch. July 15, 2024. Available from: <https://www.dispatch.com/story/news/2021/07/15/prescription-drug-clawbacks-pharmacy-benefit-managers-ohio/7817914002/>

<sup>xii</sup> DeFoor, T. “Auditor General DeFoor: Lack of Oversight by DHS and Spread Pricing by PBMs Cost PA Taxpayers \$7 million in 2022.” August 28, 2024. Available from: <https://www.paauditor.gov/auditor-general-defoor-lack-of-oversight-by-dhs-and-spread-pricing-by-pbms-cost-pa-taxpayers-7-million-in-2022/>

<sup>xiii</sup> Office of Inspector General: Texas Health and Human Services. “Pharmacy benefit manager uses unallowable pricing model.” December 19, 2024. Available from: <https://oig.hhs.texas.gov/about-us/news/pharmacy-benefit-manager-uses-unallowable-pricing-model>

<sup>xiv</sup> Federal Trade Commission. “FTC Releases Second Interim Staff Report on Prescription Drug Middlemen.” January 14, 2025. Available from: <https://www.ftc.gov/news-events/news/press-releases/2025/01/ftc-releases-second-interim-staff-report-prescription-drug-middlemen>

<sup>xv</sup> <https://www.oversight.gov/sites/default/files/documents/reports/2025-01/2023-SAG-019.pdf>

<sup>xvi</sup> 2019-2021