

**STATE OF NORTH CAROLINA**  
**DEPARTMENT OF INSURANCE**  
**PHARMACY BENEFIT MANAGER (PBM)**  
**INTERNAL CONTROL**

Internal control comprises the plan of organization and all the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

As part of, and in conjunction with, this Department's review of PBM's application for a license, consideration is given to the PBM's system of internal control. Internal controls related to the PBM's operations and the administration of self-funded and fully insured plans will be reviewed. To provide information for this review, the PBM should prepare and submit a narrative discussing existing internal controls over company operations and administered plans. The following sections outline areas of internal control which should be addressed. Section A applies to internal controls for the PBM's operations and should be addressed in all narratives; Section B and C apply to self-funded and fully insured plans, respectively, and should be addressed as applicable.

The internal control narrative, in compliance with T11 NCAC 24.0104(2), must describe any internal controls the applicant may have in place to afford protection for benefit plans, which may include the manner in which benefit plan fund accounts are established. It must also include a description of segregation of duties.

**A. Internal controls for the PBM's operations:**

1. Procedures to safeguard the receipt of company funds.
2. Segregation of functions within the workflow.
3. Procedures to safeguard the disbursement of company funds.
4. Audits, including internal audits and those performed by companies with which you have PBM service agreements, which review the system of internal control within your company.

**B. Internal controls to safeguard funds of self-funded plans (MEWAS or plans not preempted from State Insurance regulation by ERISA):**

1. Procedures to safeguard the receipt of funds. Specify if funds are received by the

- PBM or are deposited directly with a bank or into a bank lockbox.
2. If funds are collected on behalf of or for more than one self-funder, specify if there are established separate accounts for each self-funder, or if the bank into which such funds are deposited maintains records clearly recording the deposits and withdrawals made on behalf of each self-funder.
  3. Procedures to safeguard the disbursement of funds. Specify authorization procedures for the payment of claims.
  4. If claims are paid by the PBM from funds collected on behalf of a self-funder, specify if such claims are paid on the drafts of and as authorized by such self-funder.
  5. Segregation of functions within the workflow.

**C. Internal controls to safeguard funds of fully insured plans:**

1. Procedures to safeguard the receipt of funds. Specify if funds are received by the PBM or are deposited directly with a bank or into a bank lockbox.
2. If funds are collected on behalf of or for more than one insurer, specify if there are established separate accounts for each insurer, or if the bank into which such funds are deposited maintains records clearly recording the deposits and withdrawals made on behalf of each insurer. Such controls are enumerated in N.C.G.S. 58-56-31.
3. Procedures to safeguard the disbursement of funds. Specify authorization procedures for the payment of claims.
4. If claims are paid by the PBM from funds collected on behalf of an insurer, specify if such claims are paid on the drafts of and as authorized by such insurer. Such controls are enumerated in N.C.G.S. 58-56-31.
5. Segregation of functions within the workflow.

The preceding sections outline areas of internal control which this Department will emphasize in its review. However, they are in no way meant to be a complete representation of an adequate system of internal control. The PBM should provide a complete, detailed narrative, not limited to the areas discussed in the preceding sections, outlining existing internal controls over company operations and administered plans.