Financial Audits

Amando Virata, CMS

Amando Virata: Thank you Kay. As Kay mentioned my name is Amando Virata and I'll be giving a brief overview today of the 1/3 financial audits. And that goes into the objectives for my presentation today, again provide a overview of the 1/3 financial audit process, provide some examples of the audit findings that we've seen and also to be able to answer any questions and concerns that you may have.

And I know it's after lunch today so I will do my best to try to keep everyone awake and engaged. We'll start with a polling question. Should I just read the question? Okay, okay I'm sorry, and the question is, is a Chevy corvette an allowable Medicare expense on the Medicare Part D bid? And yes, that is a serious question and yes I do have to ask it. And while everyone is submitting their answers, I will also rephrase the question, is a Chevy corvette or a Porsche an allowable Medicare expense? And if that's not clear enough, if a Chevy Corvette or a Porsche that your spouse uses an allowable Medicare expense?

Okay, obviously the answer is no. And yes these are real examples, my colleagues actually worked on these audits, and luckily it was not a PACE organization, so we didn't see PACE members being transported in a Porsche or a Corvette. But these were small, closely held companies and one of these companies was so small, that when we did the site visit the physical address was an empty office space somewhere. So needless to say we are no longer doing business with these companies.

On to the next slide, so why do we do the audits? Just not to identify, Corvettes and Porsches but the audits are an important internal control feature over the Medicare Part C and Part D programs. Annual payments for the programs are over $200 billion a year, so that is a lot of money that we have to be accountable for. As many of you know, the 1/3 financial audits we just got done last year our first audits of PACE organizations. We selected and audited 33 PACE organizations for contract year 2013, we are currently auditing our second round of PACE audits, and that's for 43 PACE organizations, and that included contract years 2014 and 2015 concurrently. We are about to start our third year of audits, we have approximately 35 PACE organizations that we have initially selected, the audit notifications will be going out, hopefully within the next month or two and I will go over the notification process later in the slides. And the year that we will be auditing will be contract year 2016.

So what exactly do we audit? We have four main objectives that we audit and give opinions on. And the first one is to determine the accuracy of the prescription drug event data and your DIR, your drug manufacture rebates, with the official title for that is the Direct and Indirect Remuneration. We also look at the bid to make sure that the base year experience is accurate, we also look at internal controls over your payment disbursements for Medicare benefits. And we also look at whether the PACE plan has met the solvency requirements for PACE.

Coincidently we have four main objectives or assertions and we also have four audit results or opinions that you may receive. The first on is unqualified or clean audit. The second one is a qualified audit and that's a clean audit but we have a finding or a couple findings that we would like to be addressed. And you will see on the next slide, the overwhelming majority of all of our audit results are unqualified or qualified. The third and fourth categories are adverse and scope disclaimers and if possible you would like to avoid these categories. Adverse opinion is just basically a bad opinion, we did the audit and your records are pretty much inaccurate. A scope disclaimer, we did the audit, and for some reason the

auditors cannot get an opinion on your records, so normally in that situation its records are not available or something of that nature. So you really want to avoid categories three and four if possible. And I'll go over what happens once you receive those types of audit results later in our presentation.

Okay as I mentioned, as you can see most of the audit results are unqualified or qualified. We've been auditing Medicare Part C and Part D for about ten years now. And I wanted to emphasize here, when we first started auditing Part D, other Part D plans, most of the results were a qualified and we had some disclaimers but the majority were qualified or worse the first couple of years. After the first couple years, the majority started being more clean audits. As you can see in 2010, more than half and in 2012 more than half of the audits were clean audits. 2013, I think I mentioned this last year for any of those that were here, was our first year of auditing PACE, we expected an increase in qualified opinions and consequently those were the results. We do expect those results to be still similar the next two years, and then hopefully after that, after we went through one whole round of auditing PACE organizations we hope that those unqualified opinions will start getting back up to over 50%.

So how are plans selected for audit and notified? True to our name, it's a regulation that we have to audit 1/3 of all Medicare Part C and Part D sponsors each year. So that just determines the number that we have to audit, then we go through a risk assessment, we look at the number of memberships. We look at the number of payments. We look at prior audits and then once we do that risk assessment we then notify the plans that they have been selected for an audit. As I mentioned, for 2016 contract year the notifications should come out within the next month or two that you have been selected for an audit.

After that notification, we contract out the audits to CPA firms. We would then send you another email through HPMS letting you know which CPA firm will be conducting your audit. Once you receive the email that the CPA firm is conducting the audit, they will contact you and they will start

basically going over the entire audit process with you. They will send you document request lists, they will send you test samples, and they will start coordinating scheduling the audits with you. When they want the entrance conference on site. It is important to note that the quicker you provide any audit documentation, basically the quicker the audit goes.

And over the last ten years or so, we've had a number of delays dealing with PBMs. So please if you have a PBM or Pharmacy Benefit Manager, please stay on top of them to help them, remind them to provide the audit documentation in a timely manner. Also if you change PBMs throughout the year, that can also create some delays in dealing with the old PBM, so please be mindful of that. The auditors will also ask you to sign an assertion letter, basically asserting that the data you submit to CMS is accurate and correct to the best of your knowledge and belief. As I mentioned the auditors will schedule an entrance conference, that's normally an onsite conference and we will be on the phone as well with the auditors, well they will be onsite but we will be on the phone for the entrance conference. Approximately 60 days after the entrance conference there will be an exit conference. And during that 60-day timeframe, hopefully any open items, any audit issues, will be discussed and hopefully resolved during that time frame.

Also regarding audit findings and disagreements. That's always a touchy topic, it reminds me of an audit scenario I had. I know over in Maryland, is anyone from Maryland or familiar with Maryland here? This was a prior audit from CMS, I was auditing the Maryland Department of Labor Licensing and Regulation. And the Department of Labor Handles Unemployment Insurance. So I was mainly doing Unemployment Insurance audits and it was a routine audit, just the money comes in the money goes out to the beneficiaries, make sure you have controls over it. And I started going over the findings with management and it was all routine stuff, making sure that there's controls over the payments.

So I wrap up my work day, I go home I let the dogs out, I check the mail and I'm going through the junk mail and I see this letter from the

Department of Labor Licensing and Regulation. So I'm wondering why are they mailing my home address? Like what's up with this? So I open up the letter and I read it and the Department of Labor License and Regulation has selected me to be audited. I'm like what? Like I'm the auditor, you are not supposed to audit the auditor, so I read further and I'm a CPA so the Maryland Board of Public Accountancy is part the Department of Labor Licensing and Regulation. So just coincidently as I'm auditing this organization they randomly selected me for an audit. And the crazy thing is we didn't have any crazy findings like the Porsches and Corvettes, it was just routine stuff. But they assured me and my management that it was just a random audit.

So please if there's any disagreements or anything during the audit, just let us know we'll discuss it and work it out. That made me think about we are auditing insurance companies, and you know we have private insurance companies, so we don't want anybody's, the auditor's claims starting to get rejected and going through audits or Medicare beneficiaries, so just a little funny, a little side note. I thought I would share that.

So during the exit conference, again if there are any issues, please address those, you can address those with the auditors or you can address them with CMS. Approximately 30 days after that exit conference, the auditors will issue a draft report to CMS and we will review it and you will also be asked to provide any responses if you choose to, if there's any disagreements, it's best to put those in writing. If you just want to respond you can respond and we will include that in the audit report as well. You will also be asked to sign a management representation letter just stating that you provided all the documents and you did everything honestly and truthfully. And then once we are ready to issue the final report, we will again send a HPMS email to you notifying you that the report is available in HPMS for you to download.

As I mentioned earlier, there are four types of audit results, the unqualified audits, basically these are the good clean audits and there's

really no follow-up action, or no formal follow-up action for you to do. However, if there's any immaterial observations noted, we would expect that – we hope that you address those by the time the next audit occurs. Qualified audits, again these are the clean audits but they have a couple findings, or at least one finding and you will be required to submit a corrective action plan for any qualified audits and it's important to note that errors such as PDE errors or DIR errors, we do request that those are updated in accordance with those policies. And if you are unfortunate to have an adverse or scope disclaimer our compliance unit will contact you separately to go over those more severe issues to make sure that they are adequately addressed.

I don't know how applicable this is, luckily for PACE, but beginning in 2015, as a result of the 1/3 financial audits, Medicare Part C and Part D can be subject to a civil money penalties for issues that are identified that negatively or potentially negatively impacts the beneficiaries. Again luckily for PACE, these are financial audits and most of the PACE members are dual eligible so it's very limited chances that there will be a financial impact to members as a result of our audits, but I am disclosing it just in case there is a possibility.

Typical audit findings, as I mentioned we have PDE errors, duplicate claims, and also related to that what pops up when we look for duplicates are refill too soon, we also noted some Part A and Part B drugs being charged to Medicare Part D, and we also want to stress for pharmacy dispensing fees sometimes we see that there may be some confusion as to whether it's an in-house pharmacy or an out pharmacy where, when and when you can charge dispensing fees to Medicare.

Some other issues would be unallowable non-benefit expenses on your bid. The true out of pocket costs and coordination of benefits, monitoring the PBMs, this round of audits we have been seeing more PACE organizations using PBMs, so it is also important to just not say, "Here you go, process our PDE's for us."

But also maintain some oversight of those PBMs and that includes the drug manufacture rebates. And that concludes my presentation. If anyone has any questions we have an email account MAPDaudits@cms.hhs.gov or you can email me directly or our Deputy Director Frank Chartier. Thank you very much for your time.

Stacey Plizga: Okay thank you Amando for the discussion on Financial Audits, unfortunately we don't have time for questions right now, but please hold those questions if you have them until the open Q&A session at the end of the day and we can address them at that time. If you would like to evaluate this session, please take out your phones and respond to, or go to the web browser and respond to the question "I would like to evaluate session three." Enter "A" and follow the instructions.

Our next session features speakers from CMS who will provide and understanding of the PACE Plan Requirements for Medicare Part D, Coordination of Benefits as well as an Overview of Medicare Coordination's of Benefits and Recovery, woo, Operations. It is my pleasure to introduce to you Shelly Winston and John Albert.