

# **Financial Audits of Medicare Advantage Organizations (MAOs) and Prescription Drug Plans (PDPs)**

# Division of Capitated Plan Audits (DCPA)

A division within the Office of Financial Management

## Primary Responsibilities:

- Provide support for Managed Care Organization (MCO) financial activities (Medicare Cost Plans)
- Conducts Audits—commonly referred to as 1/3 Audits—of Medicare Advantage Organizations (MAOs) and Prescription Drug Plans (PDPs)

# Authority to Conduct Audits

- The Social Security Act (section 1857 (d) (1) and section 1860 D-12 (b) (3) (c)) requires the Secretary to audit at least 1/3 of MAOs and PDPs
- 42 CFR Section 422.503 (d) states that CMS audits the financial records of at least 1/3 of Medicare Advantage Organizations that offer MA plans including data relating to Medicare utilization, costs, and computation of the bid

# Authority to Conduct Audits (Continued)

- 42 CFR Section 423.504 (d) states that CMS should audit the financial records of at least 1/3 of the Part D Sponsors that offer Part D drug plans including data related to Medicare utilization and costs, allowable reinsurance, risk corridor costs and low income subsidies

# Audit Process

- ☐ Selection of MAOs and PDPs
- ☐ Award contracts to CPA Firms
- ☐ Obtain prescription drug event (PDE) data from CMS' s Office of Information Services (OIS)
- ☐ Contractors contact plans, schedule field visits, request necessary audit documents, and conduct an entrance conference
- ☐ Contractors conduct the audit (approximately a 4-5 month process due to wait time to receive documents from the plan, PBMs, and pharmacies)

# Audit Process (Continued)

- ☐ Contractors draft audit findings and hold an exit conference with the MAO/PDP
- ☐ Draft audit report is issued to DCPA for review and approval
- ☐ DCPA sends report to the MAO/PDP and notifies other CMS components of audit findings
- ☐ Take follow up action with the MAOs and PDPs, if necessary

# Summary of Audits

One-third of the MAO and PDPs are audited in each year:

- 2006 – Total of 169 plans audited
- 2007 – Total of 200 plans audited
- 2008 – Total of 236 plans to be audited

# Major Audit Areas

- ❑ Part D Costs and Payments – controls over drug payments (TrOOP calculation, DIR/rebates, secondary payer, duplicates, PDEs)
- ❑ Direct Medical Costs – controls over payment of medical service claims (secondary payor, duplicates, correct rates, ...)
- ❑ Non-Benefit Expense – any questionable or improperly classified expenses
- ❑ Related Party Transactions – related party transactions are reported and conducted at fair market value / not excessive
- ❑ Solvency – MAO's/PDP's ability to bear losses



# Types of Findings

- Part D DIR
  - Overstated DIR
  - Understated DIR
  - Lack verification of DIR accuracy reported by PBM

## Part D Costs and Payments

- Lack of documentation to support PDE transactions
- Missing EOBs
- Payment for non-covered drugs
- Incorrect determination of beneficiaries' liability

# Types of Findings (Continued)

## Part D TrOOP

- Transferring and calculating beneficiaries' TrOOP when transferring from plan to plan

## Direct Medical

- Internal Controls over medical service payments
- Duplicate payments
- Coordination of benefits (secondary payer situations)

## Non Benefit Expenses

- Questionable administrative expenses included in bids

# Helpful Audit Tips

- Provide CMS with updated contact information including location of financial records
- Maintain supporting documentation
  - Copies of internal and independent audit reports, SAS 70 audit reports
  - Financial records
  - Claims data used to report base year experience on bids
  - Supporting documentation for non-benefit expenses reported on bids
  - Contracts with medical service providers, PBMs, pharmacies, etc.
  - Supporting documentation for DIR reported to CMS
  - Prescriptions, EOBs, enrollment forms, etc.
  - Administrative service agreements
  - Supporting documentation for related party transactions
  - Invoices

# Helpful Audit Tips (Continued)

- Immediately request samples from PBM and pharmacies
- Sign the Assertion Letter at the beginning of the audit
- Respond timely to audit requests
- Provide feedback to CMS on the audit process

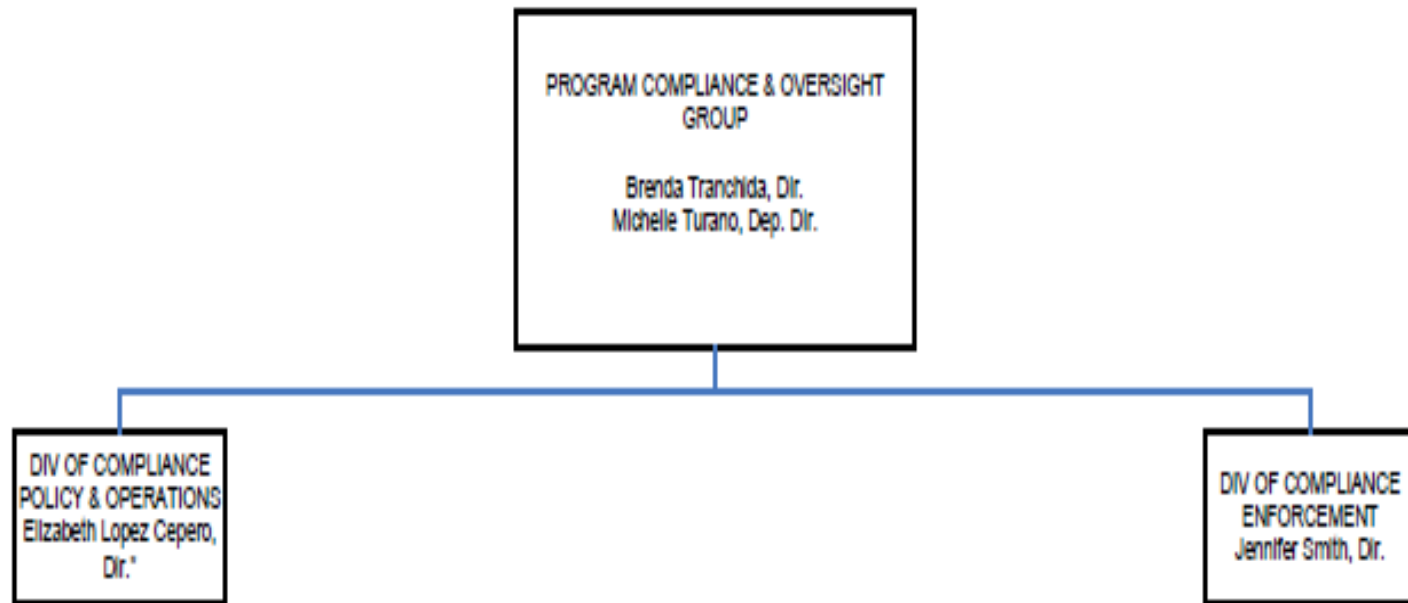
# Next Steps

- Award contracts for 2008 financial audits
- Lessons Learned
  - ❖ MAOs/PDPs
  - ❖ CPA Firms

# Program Compliance and Oversight Group

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A group within the Center for Drug and Health Plan Choice (CPC)



# Program Compliance and Oversight Group

Responsible for all things audit – compliance and oversight of MAOs and PDPs through various types of audits:

- Performance audits
- Readiness Audits
- PACE Audits
- Compliance Plan Audits
- Long Term Care Pharmacy Contract Audits
- Pharmacy Access Audits
- Risk Adjustment and Data Validation Audits
- OACT Bid Audits
- OFM 1/3 audits
- PI Benefit Integrity Audits



# Coordination with OFM – 1/3 Audits

Primary responsibilities as they relate to the 1/3 audits:

- Coordinating with OFM on 1/3 audit findings
  - Tracking findings
  - Findings analysis and findings impact
- Coordinating with Subject Matter Experts (SMEs) from the other Groups within CPC (MDBG, MCAG, MPPG) on particular 1/3 audit findings related to their programmatic areas of responsibilities and expertise

# Coordination with OFM – 1/3 Audits (Con' t)

- Coordinating with SMEs from the Office of the Actuary (OACT) on bid-related issues or actuarial findings related to the 1/3 audits that require contract compliance action
- Enforcing contract compliance actions against MAOs and PDP sponsors
  - Issuing Notice of Contract Deficiencies – Corrective Action Required
  - Issuing enforcement actions and terminations if corrective action is not implemented timely
  - Adverse and Disclaimer reports are high priority

# Coordination with OFM – 1/3 Audits

- 1/3 audits – Auditors are issuing opinions – a much more in depth audit than the agreed upon procedures reviews performed in the past
- 4 types of opinions:
  1. **Unqualified** – the financial data is fairly presented in all material respects – “clean opinion”
  2. **Qualified** - the financial data is fairly presented in all material respects with a certain exception which is otherwise misstated

# Coordination with OFM – 1/3 Audits

- 4 types of opinions (Con' t):
  3. **Adverse** - the financial data is not fairly presented and is materially misstated
  4. **Disclaimer** - the auditor could not form, and consequently refuses to present, an opinion on the financial data because the auditor could not complete the work. Usually due to significant scope limitations, whether intentional or not, which hinder the auditor's work in obtaining evidence and performing procedures

# Coordination with OFM – 1/3 Audits

- Your organization does not want an adverse opinion or disclaimer report
- Disclaimer/Adverse Reports – To date
  - Disclaimer Reports – 12
  - Adverse Reports – 5
- CMS can impose sanctions or terminate your contract with the government if the impact is egregious

# Coordination with OFM – 1/3 Audits (Con' t)

- How to prevent an adverse opinion or disclaimer:
  - Maintain documentation and supporting evidence – this is the law and a good business practice!
  - Implement internal controls
  - Cooperate with auditors

# 42 CFR 422.504 (d) and 42 CFR 423.505 (d)

## Maintain Records!

- (d) ***Maintenance of records.*** The Part D plan sponsor agrees to maintain, for 10 years, books, records, documents, and other evidence of accounting procedures and practices that-
- (1) Are sufficient to do the following:
  - (i) Accommodate **periodic auditing** of the **financial records** (including data related to Medicare utilization, costs, and computation of the bid of part D plan sponsors)

# 42 CFR 422.504 (d) and 42 CFR 423.505 (d) (Con' t)

- (ii) Enable CMS to inspect or otherwise evaluate the quality, appropriateness, and timeliness of services performed under the contract and the facilities of the organization
- (iii) Enable CMS to audit and inspect any books and records of the Part D plan sponsor that pertain to the ability of the organization to bear the risk of potential financial losses, or to services performed or determinations of amounts payable under the contract



# 42 CFR 422.504 (d) and 42 CFR 423.505 (d) (Con' t)

- (iv) Except for fallback entities, properly reflect all direct and indirect costs claimed to have been incurred and used in the preparation of the Part D plan sponsor's bid and necessary for the calculation of gross covered prescription drug costs, allowable reinsurance costs, and allowable risk corridor costs (as defined in §423.308)
- (v) Except for fallback entities, establish the basis for the components, assumptions, and analysis used by the Part D plan in determining the actuarial valuation of standard, basic alternative, or enhanced alternative coverage offered in accordance with the CMS guidelines specified in §423.265(c)(3)

# Coordination with OACT – Bid Audits

- OACT's objective is to assure that OFM findings do not adversely affect the plan's current bid
- OACT contacts the plan at the start of the Bid Desk Reviews (BDR)
- Certain OFM audit findings impact preparation of the bid
- Findings that pertain to bid preparation are questioned and resolved during OACT's bid desk review (BDR)

# Coordination with OACT – Bid Audits

- Plan must demonstrate resolution of every finding to pass the BDR
  - Verify that OFM findings have not been carried into the current bid
  - Document the corrections in HPMS
- OACT's process is only one oversight function within CMS' overall oversight strategy
  - Other CMS compliance efforts may address the same findings for different objectives



# Questions?