



Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
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JAN 11 2006

Report Number: A-01-05-00512

Mr. Eric H. Schultz
President and Chief Executive Officer
Fallon Community Health Plan
10 Chestnut Street
Worcester, Massachusetts 01608-2810

Dear Mr. Schultz:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) report entitled "Fallon Community Health Plan's Adjusted Community Rate Proposal Modifications for Contract Year 2004." A copy of this report will be forwarded to the HHS action official noted below for her review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the press and general public to the extent the information is not subject to exemptions in the Act which the department chooses to exercise (see 45 CFR part 5).

To facilitate identification, please refer to report number A-01-05-00512 in all correspondence.

Sincerely yours,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures - as stated

Page 2 – Mr. Eric H. Schultz

Direct Reply to HHS Action Official :

Charlotte Yeh, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
U.S. Department of Health and Human Services, Region I
JFK Federal Building
Room 2325
Boston, Massachusetts 02203

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FALLON COMMUNITY
HEALTH PLAN'S
ADJUSTED COMMUNITY RATE
PROPOSAL MODIFICATIONS
FOR CONTRACT YEAR 2004**



**Daniel R. Levinson
Inspector General**

**JANUARY 2006
A-01-05-00512**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Medicare Prescription Drug, Improvement, and Modernization Act

The Balanced Budget Act of 1997 (Public Law 105-33) established Part C of the Medicare program offering beneficiaries a variety of health delivery models including Medicare+Choice organizations. These organizations assume responsibility for providing all Medicare-covered services except hospice care in return for a predetermined capitated payment.

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) revised Medicare Part C, including a program name change from Medicare+Choice to Medicare Advantage. One immediate provision of the MMA was to increase payment rates to Medicare Advantage organizations (MAOs) effective March 1, 2004.

MMA required MAOs with plans for which payment rates increased as a result of MMA to submit revised adjusted community rate proposals to show how they would use the increase during contract year 2004. Fallon Community Health Plan (Fallon) submitted a revised proposal for contract year 2004 that reflected an increase in Medicare capitation payments provided by the MMA legislation of approximately \$10.9 million. Fallon proposed to use the additional funding to reduce premiums, enhance benefits by partially subsidizing a Medicare-endorsed drug discount card, contribute to a benefit stabilization fund, and stabilize or enhance beneficiary access to providers.

OBJECTIVE

The objective of our review was to determine whether Fallon's use of its MMA payment increase was adequately supported and allowable under MMA.

SUMMARY OF FINDINGS

In general, Fallon's use of the \$10.9 million MMA payment increase was adequately supported and in accord with MMA requirements. The exception was that Fallon planned to use \$160,730 of this amount for a benefit enhancement designed to subsidize the purchases of Medicare-endorsed drug discount cards by its members. Because its estimates for drug discount card purchases exceeded actual purchases, Fallon received \$154,970 more than was actually subsidized. Fallon did not use the funds for other allowable purposes under MMA. Instead, the funds were deposited into the corporate accounts.

RECOMMENDATION

We recommend that Fallon return the \$154,970 or request permission from the Centers for Medicare & Medicaid Services to use these funds in a manner consistent with MMA.

AUDITEE'S COMMENTS

In its response dated December 9, 2005 (see Appendix), Fallon agreed with our finding and recommendation. Fallon intends to request permission from the Centers for Medicare & Medicaid Services to use these funds in a manner consistent with MMA.

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INTRODUCTION

BACKGROUND

Medicare Overview

Under Title XVIII of the Social Security Act, the Medicare program provides health insurance to Americans age 65 and over, those who have permanent kidney failure, and certain people with disabilities. Within the Department of Health and Human Services, the Medicare program is administered by the Centers for Medicare & Medicaid Services (CMS).

The Balanced Budget Act of 1997 (Public Law 105-33) established Part C of the Medicare program offering beneficiaries a variety of health delivery models including Medicare+Choice organizations. These organizations assume responsibility for providing all Medicare-covered services except hospice care in return for a predetermined capitated payment.

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) revised Medicare Part C, including a program name change from Medicare+Choice to Medicare Advantage.

Proposal Requirements

At the time of our review, Medicare regulations required each Medicare Advantage organization (MAO) participating in the Medicare Advantage program to complete, for each plan, an annual adjusted community rate proposal that contains specific information about benefits and cost sharing. The MAO had to submit the proposal to CMS before the beginning of each contract period. CMS used the proposal to determine if the estimated capitation paid to the MAO exceeded what the MAO would charge in the commercial market for Medicare-covered services, adjusted for the utilization patterns of the Medicare population. MAOs had to use any excess as prescribed by law, including offering additional benefits, reducing members' premiums, accepting a capitation payment reduction for the excess amount, or depositing funds in a stabilization fund administered by CMS. The proposal process was designed to ensure that Medicare beneficiaries were not overcharged for the benefit package being offered.

Medicare Prescription Drug, Improvement, and Modernization Act Requirements

Under MMA, one immediate provision was to increase payment rates to MAOs effective March 1, 2004. The MMA required MAOs with plans whose payment rates increased to submit revised proposals to show how they would use the increase during contract year (CY) 2004. The CMS instructions for the revised proposals required MAOs to (1) submit a cover letter summarizing how they would use the increased payments and (2) support entries that changed from the original filing.

Fallon Community Health Plan's Revised Proposal

For contract year 2004, Fallon Community Health Plan (Fallon) submitted the required revised proposal for contract number H9001, plan ID numbers 001, 004, 006, and 007. Fallon had over 35,000 enrollees in its four senior plans and received an increase in Medicare capitation payments provided by the MMA legislation of \$10.9 million (about \$26 per member per month). Fallon's cover letter stated that Fallon would use the MMA payment increase to reduce premiums, enhance benefits by partially subsidizing a Medicare-endorsed drug discount card, contribute to a benefit stabilization fund, and stabilize or enhance beneficiary access to providers.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine whether Fallon's use of its MMA payment increase was adequately supported and allowable under MMA.

Scope

Our review covered the \$10.9 million increase in CY 2004 Medicare capitation payments provided by the MMA legislation for plan ID numbers 001, 004, 006, and 007. Our objective did not require us to review the internal control structure of Fallon. We conducted our fieldwork from June to July 2005 at Fallon's office in Worcester, MA.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the cover letter that Fallon submitted with its revised proposal, in which it stated how it would use the MMA payment increase;
- compared the initial proposal with the revised proposal to determine the modifications;
- reviewed the supporting documentation for the proposed use of the MMA payment increase;
- reviewed the supporting documentation for the actual use of the MMA payment increase; and
- interviewed Fallon staff.

We performed our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

In general, Fallon's use of the \$10.9 million MMA payment increase was adequately supported and in accord with MMA requirements. The exception was that Fallon planned to use \$160,730 of this amount for a benefit enhancement designed to subsidize the purchases of Medicare-endorsed drug discount cards by its members. Because its estimates for drug discount card purchases exceeded actual purchases, Fallon received \$154,970 more than was actually subsidized. Fallon did not use the funds for other allowable purposes under MMA. Instead, the funds were deposited into the corporate accounts.

FEDERAL REQUIREMENTS FOR MMA PAYMENT INCREASES

Section 211 of MMA (and section 604 of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 incorporated by reference) allows MAOs to use the MMA payment increases to:

- reduce beneficiary premiums,
- reduce beneficiary cost sharing,
- enhance benefits,
- contribute to a benefit stabilization fund, or
- stabilize or enhance beneficiary access to providers.

Additionally, Federal regulations at 42 CFR § 422.502(d)(1)(i) require that adjusted community rate proposals are supported.

FALLON'S USE OF MMA FUNDS

Fallon implemented four of the five categories for the use of the MMA funds as follows:

- reduced beneficiary premiums,
- enhanced benefits,
- contributed to a benefit stabilization fund, and
- stabilized or enhanced beneficiary access to providers.

Fallon's use of the MMA funds to reduce premiums, contribute to a benefit stabilization fund, and stabilize or enhance beneficiary access to providers was consistent with MMA requirements and adequately supported. However, although adequately supported, not all of the funds intended for use as a drug discount card subsidy were used as specified by Fallon's cover letter.

ENHANCED BENEFITS THROUGH DRUG DISCOUNT CARDS

For CY 2004, Fallon's cover letter stated that Fallon would use part of the MMA money to enhance benefits by offering a subsidy of \$15 to all of the Medicare members who purchased a Medicare-endorsed drug discount card. Fallon estimated that 30 percent of the total membership for CY 2004 would purchase drug discount cards. As a result, the cost for the drug discount card subsidy was estimated to be \$160,730.

Only 382 members (about 1 percent) actually purchased drug discount cards in CY 2004, resulting in subsidy payments by Fallon that totaled \$5,760. The remaining \$154,970 was deposited into Fallon's corporate account rather than paid out in drug benefits or used for other allowable purposes under MMA.

Fallon officials indicated that the drug discount card was being offered for the first time and that they had made their best estimate of how many members would buy the cards.

RECOMMENDATION

We recommend that Fallon return the \$154,970 to CMS or request permission from CMS to use it in a manner consistent with MMA.

AUDITEE'S COMMENTS

In its response dated December 9, 2005 (see Appendix), Fallon agreed with our finding and recommendation. Fallon intends to request permission from CMS to use these funds in a manner consistent with MMA.

APPENDIX



December 9, 2005

Michael J. Armstrong
Regional Inspector General for Audit Services
Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203

Dear Mr. Armstrong;

Thank you for the report dated October 3, 2005. We intend to request permission from the Centers for Medicare and Medicaid Services to use the funds that your group identified in its report in a manner consistent with the MMA. We respectfully request an extension of 2 weeks in order to be able to provide you with a more detailed response after speaking with CMS. Please call me if you have questions.

Sincerely,

A handwritten signature in black ink that reads "Charles R. Goheen". The signature is fluid and cursive.

Charles R. Goheen
Vice President and Chief Financial Officer, FCHP