Date: November 16, 1994

From: June Gibbs Brown
Inspector General

Subject: End Stage Renal Disease Special Status Beneficiaries at Humana, Inc. (A-04-94-01096)

To: Bruce C. Vladeck
Administrator
Health Care Financing Administration

This memorandum alerts you to the issuance on November 18, 1994 of our final report. A copy is attached.

The objective of our audit was to determine the appropriateness of the Medicare payments made to the health maintenance organization (HMO), Humana Medical Plan, Inc. (Humana) in Florida for Medicare beneficiaries classified as End Stage Renal Disease (ESRD) status. In addition to a regular monthly capitation payment, HMOs receive an additional monthly payment for beneficiaries classified as ESRD status. From a total of 212 beneficiaries classified as ESRD status enrolled with Humana in September 1992, we identified 25 beneficiaries inappropriately classified. These 25 beneficiaries did not meet the Health Care Financing Administration’s (HCFA) regulations for ESRD classification. As a result, Humana received overpayments of $1,644,547 between October 1, 1990 and December 31, 1993 for the 25 beneficiaries. The Humana could have prevented the overpayments if it had appropriately monitored the status of the beneficiaries once they enrolled. We are recommending that Humana:

- monitor the monthly HCFA Special Status Beneficiary report and notify HCFA of beneficiary status changes where appropriate;
- refund the $1,644,547 in overpayments;
- identify and refund overpayments received on behalf of these 25 beneficiaries since December 1993; and
- identify and refund overpayments received for all other beneficiaries inappropriately classified as ESRD since our sample period of September 1992. As of January 1994, the Special Status Beneficiary report showed that there were 295 beneficiaries classified as ESRD status.
Humana concurred with the audit recommendations and presented a plan of action to implement them.

We did not discuss in the attached report actions that HCFA could take to reduce Medicare vulnerability to improper ESRD-status capitation payments. However, as a result of an early alert memorandum we sent you on June 15, 1994 entitled, "Audit of Medicare Payments Made for End-Stage Renal Disease Patients to Health Maintenance Organizations" (A-04-94-01090), HCFA's Bureau of Data Management and Strategy has identified systems changes that it believes will prevent improper payments to HMOs. We intend to issue a report to you soon which will address needed systems changes at HCFA and will quantify the amount of overpayments to other HMOs for beneficiaries inappropriately classified as ESRD status.

For further information, contact:

Joseph J. Green
Regional Inspector General for Audit Services, Region IV
(404) 331-6229

Attachment
AUDIT OF
END STAGE RENAL DISEASE
SPECIAL STATUS BENEFICIARIES AT
HUMANA, INC.

JUNE GIBBS BROWN
Inspector General

NOVEMBER 1994
A-04-94-01096
Mr. Wayne Smith, President
Humana Medical Plans, Inc.
500 West Main Street
Louisville, Kentucky  40201

Dear Mr. Smith:

This final report provides you with the results of our review of Medicare payments made to Humana Medical Plan, Inc. (Humana) in Florida for beneficiaries classified as having End Stage Renal Disease (ESRD).

The objective of our audit was to determine the appropriateness of the Medicare payments made to Humana for Medicare beneficiaries classified as ESRD status.

We identified 25 beneficiaries enrolled with Humana in September 1992 inappropriately classified as ESRD status. These 25 beneficiaries did not meet Health Care Financing Administration (HCFA) regulations for classification. As a result, Humana received overpayments of $1,644,547 between October 1, 1990 and December 31, 1993. The overpayment occurred because Humana did not appropriately monitor the status of the beneficiaries once they enrolled. We are recommending that Humana:

- monitor the monthly HCFA Special Status beneficiary report and notify HCFA of beneficiary status changes where appropriate;
- refund the $1,644,547 overpayments;
- identify and refund overpayments received on behalf of these 25 beneficiaries since December 1993; and
- identify and refund overpayments received for all other beneficiaries inappropriately classified as ESRD since our sample period of September 1992.
Humana concurred with the audit recommendations and presented a plan of action to implement them. The complete text of the response is included as an attachment to the report.

BACKGROUND

The Health Maintenance Organization (HMO)

An HMO is a legal entity that provides or arranges for health services for its enrollees. An HMO can contract with HCFA to provide medical services to Medicare beneficiaries. Humana’s contract with HCFA has been in force since prior to October 1, 1990. The contract provides for Medicare to make fixed monthly payments to Humana based on beneficiary status of enrolled beneficiaries. The amount of the fixed monthly payments is determined by HCFA in accordance with 42 Code of Federal Regulations (CFR) 417.587.

Medicare beneficiaries may enroll in HMOs which have contracts with HCFA. Although Federal regulations prohibit Medicare beneficiaries who are being treated for ESRD from enrolling in HMOs, beneficiaries who develop ESRD after enrollment may remain enrolled in an HMO.

Payments for End-Stage Renal Disease Beneficiaries

The ESRD is the stage of kidney impairment that appears permanent and requires a regular course of dialysis or kidney transplantation to maintain life. The ESRD status may make an individual eligible for Medicare benefits, regardless of age. Medicare payments to HMOs for enrolled beneficiaries who have ESRD are higher than for other beneficiaries. The Tax Equity and Fiscal Responsibility Act of 1982 provides that payments to HMOs for Medicare beneficiaries be adjusted by a set of risk factors such as age, sex, and Medicare entitlement status. The payment is then increased for certain high cost categories of beneficiaries. The ESRD beneficiaries are included in these special status categories.

SCOPE

The objective of our audit was to determine the appropriateness of the Medicare payments made to Humana for Medicare beneficiaries classified as ESRD status. We selected the September 1992 Special Status Beneficiary report to determine whether Medicare beneficiaries enrolled with Humana were appropriately classified.
We reviewed the records of HCFA and Humana for all 212 ESRD beneficiaries listed in the September 1992 Special Status Beneficiary report. To do this, we examined all available medical and financial records at Humana. We also verified the ESRD pay status with HCFA. We then computed the amount of overpayment based on HCFA’s applicable rates.

We did not conduct a review of Humana’s internal controls, nor did we place reliance on internal controls. Our review was limited to compliance testing of payments made from October 1990 through December 1993 for the beneficiaries in ESRD special status as of September 1992. We did not determine the overpayments for beneficiaries inappropriately classified as ESRD after September 1992. The Special Status Beneficiary report for January 1994 showed 295 beneficiaries classified as ESRD.

Our fieldwork was performed at the Humana Headquarters in Louisville, Kentucky and Humana offices in Tampa, Orlando, Daytona, and Miami, Florida from October 1993 to August 1994. Our review was made in accordance with generally accepted government auditing standards.

The September 1992 Special Status Beneficiary report which HCFA provided to Humana contained 25 Medicare beneficiaries inappropriately classified. They were inappropriately classified because they did not meet HCFA’s regulations for ESRD status for the period October 1990 through December 1993. The overpayment happened because Humana did not monitor the status of ESRD beneficiaries as required.

Consequently, the resulting overpayments of $1,644,547 made to Humana should be refunded to Medicare. In addition, Humana should monitor the status of ESRD beneficiaries and report changes to HCFA. Humana should also identify and refund overpayments received since December 1993. (See Appendix for detailed listing of overpayments.)

**Regulations**

According to Federal regulations found at 42 CFR 406.13(f)(1)(2), ESRD Medicare "entitlement ends with:"
(1) The end of the 12th month after the month in which a course of dialysis ends, unless the individual receives a kidney transplant during that period or begins another regular course of dialysis; or

(2) The end of the 36th month after the month in which the individual has received a kidney transplant, unless the individual receives another kidney transplant or begins a regular course of dialysis during that period."

**HCFA Payment Process**

- To receive payment for a Medicare beneficiary an HMO must notify HCFA that the individual has enrolled in its HMO.
- The HCFA places the individual into the HMO payment data base.
- This payment data base classifies beneficiaries by status (e.g., ESRD, institutionalized, regular, etc.).
- The status classification controls the rate of the monthly payment for the beneficiary which is automatically distributed by HCFA to the HMO.
- Monthly, HCFA provides HMOs with Special Status Beneficiary Reports which identifies those beneficiaries for whom the HMO receives more than the regular payment.
- HCFA's HMO manual, Section 6000, requires HMOs to monitor monthly status reports and inform HCFA of any change in status and therefore, payment rate.

**Inappropriate Classification and Overpayment**

We reviewed the 212 ESRD beneficiaries listed on HCFA's September 1992 Special Status Beneficiary report and found 25 inappropriately classified. Federal regulations require ESRD status to end if the beneficiary has not received dialysis within a year or 3 years after the beneficiary has received a kidney transplant. Our review of the medical records at Humana and information from the ESRD data base at HCFA has shown that these 25 beneficiaries did not meet this criteria.

Our review showed that these 25 beneficiaries, prior to their enrollment in Humana, were treated for ESRD. However, their condition improved and at the time they enrolled in Humana, none of them were being treated for ESRD. Upon their enrollment, HCFA inadvertently paid Humana at the payment rate for beneficiaries who were classified as ESRD status.
We analyzed the 1992 HCFA Group Health Plan Maintenance System Rate Tables for the 11 Florida counties where Humana does business to determine rates Medicare paid Humana for enrolled beneficiaries. We determined that during 1992, Humana's reimbursement rate for regular Medicare beneficiaries averaged approximately $345 per month. However, for ESRD beneficiaries, Humana's reimbursement rate averaged approximately $2,700 per month. For the 25 beneficiaries inappropriately classified as ESRD, Humana was overpaid approximately $2,300 per beneficiary per month.

Using payment data furnished by HCFA to determine appropriate status and reimbursement rates, we calculated overpayments for the 25 beneficiaries of $1,644,547 from October 1, 1990 to December 31, 1993. (See Appendix for detailed listing of overpayments.)

Monitoring ESRD Status

Humana did not appropriately monitor the status of the beneficiaries once they enrolled. When these beneficiaries began to generate the special status payment rate for ESRD upon enrollment, Humana did not monitor their special status and inform HCFA that the beneficiaries no longer met the special status for ESRD classification.

Humana's failure to monitor and notify HCFA of beneficiary ESRD status continues. As of April 1994, 19 of the 25 beneficiaries inappropriately classified continue enrollment at Humana and generate the ESRD special status payment rate. Of the six remaining beneficiaries, five disenrolled from Humana and one transferred to the Hospice level of care.

RECOMMENDATIONS

We recommend that Humana:

- monitor the monthly HCFA Special Status beneficiary report and notify HCFA of beneficiary status changes where appropriate;
- refund the $1,644,547 overpayments;
- identify and refund overpayments received on behalf of these 25 beneficiaries since December 1993; and
- identify and refund overpayments received for all other beneficiaries inappropriately classified as ESRD since our sample period of September 1992.
Humana concurred with our recommendations and provided a plan of action to implement them.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of the Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act that the Department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions regarding this report, please contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits at (410) 966-7104 or Joseph J. Green, Regional Inspector General for Audit Services at (404) 31-2446. Please refer to the above Common Identification Number (CIN) in any correspondence regarding this report.

Sincerely yours,

[Signature]
Joseph J. Green
Regional Inspector General
for Audit Services, Region IV

Appendix
## Audit of ESRD Special Status Beneficiaries at Humana

### Summary of ESRD Overpayments for the Period 10/01/90 - 12/31/93

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>For the Period</th>
<th>Overpayment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>01/90 - 12/93</td>
<td>$93,118.40 *</td>
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<tr>
<td>2</td>
<td>07/91 - 12/93</td>
<td>66,433.18</td>
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<tr>
<td>3</td>
<td>05/92 - 12/93</td>
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<td>4</td>
<td>11/91 - 12/93</td>
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</tr>
<tr>
<td>7</td>
<td>11/90 - 12/93</td>
<td>85,543.52</td>
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<tr>
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<td>01/90 - 12/93</td>
<td>92,892.51 *</td>
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<tr>
<td>9</td>
<td>10/90 - 12/93</td>
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<td>25</td>
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<td>42,045.63</td>
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</table>

**Total Overpayments**

$1,644,546.82

* Beneficiaries' status was retroactively adjusted for payment periods prior to 10/01/90.
October 12, 1994

Mr. Joseph J. Green  
Regional Inspector General - Audit Services  
Region 4  
P.O. Box 2047  
Atlanta, Georgia 30301  

Re: _CIN A-04-94-01096  

Dear Mr. Green:  

We are in receipt of your draft report on the audit of End Stage Renal Disease (ESRD) special status beneficiaries at Humana. We would like to take this opportunity to extend our appreciation for allowing us the opportunity to review and respond to this report before a final report is issued.  

Please be advised that we concur with the findings described in the audit, specifically:

- That Humana receives a higher capitation payment from HCFA for members who are in the Medicare ESRD program, and that  
- Humana inherited (through acquisition) or enrollment (by aging in from commercial programs) 25 beneficiaries who were designated as ESRD active, and that  
- The condition of the 25 beneficiaries referenced improved over the course of time, and that  
- This improvement was cause for them to lose their eligibility in the ESRD program, and that  
- This resulted in a cumulative overpayment of ESRD capitation by HCFA in the amount of $1,644,546.82 which is approximately .1% of payments during the selected period, and that  
- This was due in part to Humana not monitoring the monthly status of each beneficiary and subsequently, advising HCFA of any change in status.

continued . . . . .
It should be pointed out that Humana is in agreement with the recommendations submitted by the OIG to reconcile and will attempt to prevent future occurrences of this issue. Specifically, Humana will attempt to:

- Implement a process that will effectively monitor changes in ESRD status on all beneficiaries. This plan will be put in place by November 1, 1994, and will be provided to both HCFA and the OIG for review.
  - Run a quarterly report that matches ESRD membership and claims activity.
  - Research ESRD membership that does not have supported claims activity.
  - Review dialysis status with the Provider on those members without supported claims activity.
  - Inform HCFA in writing and request HCFA's review.
  - Track membership until HCFA responds.
  - Change membership status based on HCFA's response.

- Contact HCFA to discuss a method for their recoupment of the overpayment of $1,644,546.82.

- Identify any additional payments made from December 1993 forward on the 25 cases referenced.

- Identify any overpayments made on any other beneficiary inappropriately classified as ESRD from the sample period of September 1992 to date.

We await your response with respect to setting a date for an exit conference. If you have any questions, please do not hesitate to contact me at (502) 580-2013 or Brenda Luckett at (502) 580-6781.

Sincerely,

Larry Cash

cc: Phil Garmon
Senior Vice President - Region 1