



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

MAR 03 2009

Region VII
601 East 12th Street
Room 429
Kansas City, Missouri 64106

Report Number: A-07-08-03111

Ms. Tresia Franklin
Director of Total Reports
Hallmark Cards, Inc.
2501 McGee Street
P.O. Box 419580, Mail Drop 185
Kansas City, Missouri 64141-6580

Dear Ms. Franklin:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Retiree Drug Subsidy Plan Sponsor Hallmark Cards, Inc., for Plan Year Ended December 31, 2006." We will forward a copy of this report to the HHS action official noted below.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-07-08-03111 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

HHS Action Official:

Ms. Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management & Fee for Service Operations
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 235
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF RETIREE DRUG
SUBSIDY PLAN SPONSOR
HALLMARK CARDS, INC., FOR
PLAN YEAR ENDED
DECEMBER 31, 2006**



Daniel R. Levinson
Inspector General

March 2009
A-07-08-03111

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Title I of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173) (MMA) amended Title XVIII of the Social Security Act by establishing the Medicare Part D prescription drug benefit. Under Medicare Part D, which was implemented effective January 1, 2006, individuals entitled to benefits under Medicare Part A or enrolled in Medicare Part B may obtain drug coverage. In addition, Section 101 of the MMA established a Retiree Drug Subsidy (RDS) program. The Centers for Medicare & Medicaid Services (CMS) is responsible for the administration of the program. CMS makes subsidy payments to sponsors (that is, employers and unions) of qualified retiree prescription drug plans for each qualifying retiree covered under the plan. A qualifying covered retiree is a Medicare Part D eligible individual who is not enrolled in a Part D plan but who is covered by a qualified retiree prescription drug plan. The subsidy payments for each qualifying covered retiree generally equal 28 percent of allowable retiree drug costs.

Medicare requires that the sponsor of a qualified retiree prescription drug plan submit an RDS application to CMS each year. As part of the application process, plan sponsors must submit a list of qualifying covered retirees. The submitted list must include retiree identification information as well as the plan sponsor's coverage effective and termination dates. Plan sponsors, or their vendors, must accumulate records of retiree drug costs and prepare and submit cost reports to CMS before requesting subsidy payments. CMS created the RDS secure Web site as a secure portal for plan sponsors participating in the subsidy program to submit RDS applications and requests for payment.

Hallmark Cards, Inc., (Hallmark) is a for-profit company headquartered in Kansas City, Missouri, that offers prescription drug coverage to its retired employees through the Retiree Medical Plan of Hallmark Cards, Inc. (Plan). Hallmark used three outside vendors to maintain its RDS program. For plan year 2006, Hallmark received \$1,678,234 in subsidy payments based upon 3,049 eligible retirees, with reported gross retiree drug costs of \$8,505,179 and allowable retiree costs of \$5,993,694.

OBJECTIVE

Our objective was to determine whether Hallmark (1) met the plan sponsor requirements; (2) established controls to ensure that drug subsidy costs were correctly reported; and (3) established administrative safeguards over retiree data included in the RDS secure website.

SUMMARY OF REVIEW

Hallmark (1) met the requirements to be a plan sponsor; (2) established adequate controls to ensure that drug subsidy costs were correctly reported; and (3) established adequate administrative safeguards over retiree data included in the RDS secure website.

This report contains no recommendations.

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INTRODUCTION

BACKGROUND

Retiree Drug Subsidy

Title I of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173) (MMA) amended Title XVIII of the Social Security Act by establishing the Medicare Part D prescription drug benefit. Under Medicare Part D, which was implemented effective January 1, 2006, individuals entitled to benefits under Medicare Part A or enrolled in Medicare Part B may obtain drug coverage. In addition, Section 101 of the MMA established a Retiree Drug Subsidy (RDS) program. The Centers for Medicare & Medicaid Services (CMS) is responsible for the administration of the program. CMS makes subsidy payments to sponsors (that is, employers and unions) of qualified retiree prescription drug plans for each qualifying retiree covered under the plan. As stated in Federal regulations at 42 CFR § 423.882, a qualifying covered retiree is a Medicare Part D eligible individual who is not enrolled in a Part D plan but who is covered by a qualified retiree prescription drug plan.

The subsidy payments for each qualifying covered retiree generally equal 28 percent of allowable retiree drug costs. The allowable retiree drug costs are based on gross retiree costs between a cost threshold and a cost limit,¹ minus any price concessions such as discounts or rebates.

Plan Sponsor Requirements

Medicare requires that the sponsor of a qualified retiree prescription drug plan submit an RDS application to CMS each year. Pursuant to 42 CFR § 423.884(c), the application must include identifying information for the plan sponsor, an actuarial attestation that the actuarial value of the retiree prescription drug coverage under the plan is at least equal to the actuarial value of the defined standard prescription drug benefit under Medicare Part D, a list of qualifying covered retirees and identifying information, and a sponsor agreement signed by an authorized representative of the plan sponsor.

Qualifying Covered Retirees

As part of the application process, plan sponsors must submit a list of qualifying covered retirees. The submitted list must include retiree identification information, as well as the plan sponsor's coverage effective and termination dates.² To process a retiree file, CMS queries the Medicare Beneficiary Database and determines whether each individual is a qualifying covered retiree eligible for the subsidy based on Medicare entitlement. CMS then determines the periods

¹The cost threshold and cost limit are determined by CMS. For plan year (PY) 2006 the individual qualifying retiree cost threshold was \$250 and the cost limit was \$5,000.

²The plan sponsor's coverage effective and termination dates represent the dates that the plan sponsor provided the retiree with coverage under the qualified retiree prescription drug plan.

of time during the PY when the retiree is eligible for the subsidy. CMS includes the subsidy effective and termination dates in the retiree response file that it returns to the plan sponsor.

CMS recommends in its guidance that plan sponsors submit updated retiree files on a periodic basis to reflect (1) new retirees not reported previously, (2) updates to previously accepted retiree records, (3) deletions for previously accepted retiree records, and (4) resubmissions. Each time a plan sponsor submits an updated retiree file, CMS prepares a response file. CMS also sends plan sponsors a notification file when an event occurs—such as a retiree’s death or enrollment in Medicare Part D—that may affect a plan sponsor’s ability to receive the subsidy for a particular retiree.

Pursuant to 42 CFR § 423.888(b), plan sponsors, or their vendors, must accumulate records of retiree drug costs and prepare and submit cost reports to CMS before requesting subsidy payments. Plan sponsors can elect to receive interim subsidy payments based on costs reported to date. A plan sponsor receiving interim payments is required to reconcile interim subsidy payments within 15 months after the end of its PY. CMS then makes any necessary adjustments to interim payments for the PY when the reconciliation is completed.

Because plan sponsors submit retiree costs to CMS on an aggregate (rather than an individual retiree) basis, plan sponsors must carefully manage retiree response and notification files to ensure that costs are accumulated only for qualifying covered retirees during valid subsidy periods.

Retiree Drug Subsidy Secure Web Site

CMS, through its contractor ViPS, Inc., created the RDS secure Web site as a secure portal for plan sponsors participating in the subsidy program to submit RDS applications and requests for payment. Plan sponsor personnel requiring access to the secure Web site are assigned roles, including authorized representative, account manager, actuary, and designee. The authorized representative or account manager can assign designees various duties including completing portions of the RDS application, submitting retiree data, and requesting subsidy payments.

Hallmark Cards, Inc.

Hallmark Cards, Inc., (Hallmark) is a for-profit company headquartered in Kansas City, Missouri. Through its benefits department, Hallmark offers prescription drug coverage to its retired employees through the Retiree Medical Plan of Hallmark Cards, Inc. (Plan).

Hallmark used three outside vendors to maintain its RDS program and elected to receive subsidy payments on an interim basis:

- Blue Cross & Blue Shield of Kansas City (BCBSKC) determined which participants in the Plan were qualifying covered retirees. BCBSKC determined eligibility based upon employee health information provided by Hallmark.

BCBSKC provided eligibility determinations to CVS/Caremark to update CMS Part D RDS eligibility records on Hallmark's behalf.

- In addition to updating CMS on Hallmark's retiree eligibility information, CVS/Caremark was also Hallmark's Pharmacy Benefit Manager (PBM)³ for PY 2006. In this capacity, CVS/Caremark processed and maintained the Plan's drug claims and prepared interim RDS cost reports to submit to CMS on Hallmark's behalf.
- Mercer (a consulting company) was responsible for preparing the reconciled cost report for PY 2006, based on the data from CVS/Caremark.

Based on that reconciliation, for PY 2006, Hallmark received \$1,678,234 in subsidy payments based upon 3,049 eligible retirees, with reported gross retiree drug costs of \$8,505,179 and allowable retiree costs of \$5,993,694.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Hallmark (1) met the plan sponsor requirements; (2) established controls to ensure that drug subsidy costs were correctly reported; and (3) established administrative safeguards over retiree data included in the RDS secure website.

Scope

We reviewed Hallmark's PY 2006 RDS application, retiree lists, and cost reports. Our review was limited to determining whether Hallmark correctly reported drug costs for qualifying covered retirees and for applicable periods of RDS eligibility. We also reviewed the RDS secure Web site users associated with Hallmark's application for PY 2006.

Our objectives did not require an understanding or assessment of the complete internal control system at Hallmark. We limited our review of internal controls to obtaining an understanding of Hallmark's process for monitoring and updating its retiree files and coordinating with its outside vendors to ensure that costs claimed for subsidy payments represented costs for qualifying covered retirees.

We performed our field work at Hallmark's offices in Kansas City, Missouri; CVS/Caremark's offices in Scottsdale, Arizona, and Chicago, Illinois; and Mercer's office in Scottsdale, Arizona; from July through November 2008.

³PBMs work with third party payers (private insurers, self-funded employers, and public health programs) to manage consumer drug purchases by defining which drugs will be paid for, the amount that the pharmacy will receive, and how much the consumer must pay out-of-pocket when the prescription is filled.

Methodology

To accomplish our objectives, we:

- reviewed applicable laws, regulations, Medicare program guidance, and the American Academy of Actuaries' (AAA) guidance;
- met with Hallmark's actuary and reviewed its working papers to verify that the actuary had completed and submitted the attestation in accordance with CMS and AAA guidance;
- reviewed Hallmark's notice of creditable coverage sent to Medicare Part D eligible retirees for the period beginning January 1, 2006;
- reviewed Hallmark's PY 2006 RDS application to determine whether the information provided was complete, accurate, and submitted to CMS by the October 31, 2005, deadline, and to verify that CMS had approved the application;
- reviewed a judgmentally selected sample of 50 retirees to determine whether Hallmark claimed prescription drug expenditures only on eligible retirees, only for expenditures during the PY that exceeded the cost threshold and fell below the cost limit, and only within the retirees' Plan coverage dates;
- reviewed information from the Medicare Beneficiary Database to determine whether the sampled retirees were enrolled in Medicare Parts A & B and were Medicare Part D eligible, but not enrolled in a Medicare Part D prescription drug plan;
- reviewed documentation provided by Hallmark to determine whether the sampled retirees met Hallmark's criteria for retiree health coverage and were enrolled in a retiree health plan approved for the RDS;
- met with Hallmark's and its vendors' personnel responsible for the RDS process to obtain an understanding of the application process and their procedures for submitting retiree files to CMS and for processing retiree response and notification files received from CMS;
- reviewed PY 2006 interim cost reports submitted by CVS/Caremark in November 2006 and January 2007, and the reconciled cost report submitted by Mercer in March 2008;
- reviewed Hallmark's vendor contracts with CVS/Caremark and Mercer; and
- identified Hallmark's secure Web site users for the PY 2006 application and determined whether the users were assigned and registered in accordance with program policies.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

RESULTS OF REVIEW

Hallmark (1) met the requirements to be a plan sponsor; (2) established adequate controls to ensure that drug subsidy costs were correctly reported; and (3) established adequate administrative safeguards over retiree data included in the RDS secure website.

This report contains no recommendations.