



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

Office of Audit Services
Region I
John F. Kennedy Federal Building
Room 2425
Boston, MA 02203
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November 16, 2009

Report Number: A-01-08-00602

Ms. Linda M. Hodgdon, Commissioner
Department of Administrative Services
State of New Hampshire
25 Capitol Street
State House Annex, Room 120
Concord, New Hampshire 03301-6312

Dear Ms. Hodgdon:

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 State of New Hampshire For Plan Year Ended June 30, 2006." We will forward a copy of this report to the HHS action official noted on the following page for 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 this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Leah Scott, Audit Manager, at (617) 565-2679 or through email at Leah.Scott@oig.hhs.gov. Please refer to report number A-01-08-00602 in all correspondence.

Sincerely,

/Michael J. Armstrong/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Nanette Foster Reilly, Consortium Administrator
Consortium for Financial Management and 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
STATE OF NEW HAMPSHIRE FOR
PLAN YEAR ENDED JUNE 30, 2006**



Daniel R. Levinson
Inspector General

November 2009
A-01-08-00602

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

Section 101 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P. L. No. 108-173) established a Retiree Drug Subsidy (RDS) program effective January 1, 2006. Under the program, a sponsor of a qualified retiree prescription drug plan can receive a subsidy payment generally equal to 28 percent of each qualifying covered retiree's annual allowable drug costs. A qualifying covered retiree is a Part D eligible individual who is not enrolled in a Part D plan but who is covered by a qualified retiree prescription drug plan.

Medicare requires that the sponsor of a qualified retiree prescription drug plan submit an RDS application to the Centers for Medicare & Medicaid Services (CMS) each year. As part of the application process, plan sponsors must submit a list of qualifying covered retirees that includes retiree identification information, as well as the plan sponsor's coverage effective and termination dates. The plan sponsor agreement included with the RDS application requires sponsors to establish and implement proper safeguards against unauthorized use and disclosure of the data exchanged under the application.

Pursuant to 42 CFR § 423.888(b), plan sponsors receive subsidy payments on the condition that they provide accurate information. A plan sponsor can elect to receive interim subsidy payments based on costs reported to date but must reconcile those payments within 15 months after the end of its plan year. CMS extended the reconciliation deadline for all plan year 2006 applications to June 30, 2008.

The State of New Hampshire (the State) offers prescription drug coverage to its retired employees. The State received an interim subsidy payment of \$1,783,586 in October 2006 for the 2006 plan year (July 1, 2005 through June 30, 2006). The State completed final reconciliation for the 2006 plan year on June 18, 2008.

OBJECTIVES

The objectives of our review were to determine whether the State (1) met the requirements to be a plan sponsor (2) ensured that drug subsidy costs were reported on behalf of qualifying covered retirees, (3) established administrative safeguards over retiree data included on the RDS secure Web site, and (4) ensured the accuracy of costs reported on its interim cost report.

SUMMARY OF FINDING

The State met the requirements to be a plan sponsor, ensured that drug subsidy costs were reported on behalf of qualifying covered retirees, and established administrative safeguards over retiree data included on the RDS website. However, the State did not ensure that drug costs were accurately reported on its interim cost report. For the 2006

plan year, the State received a subsidy payment of \$1,783,586 based on its interim cost report. At final reconciliation, the State's subsidy payment amounted to \$1,619,516, resulting in an overpayment of \$164,070.

This overpayment occurred because the State had not established sufficient controls to ensure that the amounts reported on its interim cost report were accurate. The State has returned the overpayment to CMS.

RECOMMENDATION

We recommend that the State strengthen its controls to ensure that it accurately reports drug costs on its interim cost reports.

STATE COMMENTS

In written comments on our draft report, the State outlined the status of current and planned actions that it was taking in response to our recommendation. The State's comments appear in their entirety in the Appendix.

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INTRODUCTION

BACKGROUND

Retiree Drug Subsidy

Section 101 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P. L. No. 108-173) established a Retiree Drug Subsidy (RDS) program effective January 1, 2006. Under the program, the Centers for Medicare & Medicaid Services (CMS) makes subsidy payments to sponsors (employers and unions) of qualified retiree prescription drug plans for each qualifying retiree covered under the plan. A qualifying covered retiree is a 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, 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. The application must contain identifying information for the plan sponsor, an actuarial attestation, and a list of qualifying covered retirees¹ and their identifying information, including the dates that the plan sponsor provided the retiree with coverage under the plan. These dates are referred to as the coverage effective and termination dates (coverage dates).

CMS queries the Medicare Beneficiary Database to determine the periods of time during the plan year when the retiree is eligible for the subsidy. CMS includes the subsidy effective and termination dates (subsidy dates) in the retiree response file that it returns to the plan sponsor. 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 retiree. Plan sponsors must carefully manage retiree response and notification files to ensure that they report only costs that are incurred within both the retiree’s coverage and subsidy dates.

The plan sponsor agreement included with the RDS application requires sponsors to establish and implement proper safeguards against unauthorized use and disclosure of the data exchanged under the application.

¹ CMS also recommends that plan sponsors submit updated retiree lists on a periodic basis to reflect changes to previously reported retiree information and to report new retiree information.

Cost Reporting

Pursuant to 42 CFR § 423.888(b), plan sponsors receive subsidy payments on the condition that they provide accurate information. Plan sponsors, or their vendors, must accumulate 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 plan year. CMS makes any necessary adjustments to interim payments for the plan year when the reconciliation is completed. CMS extended the reconciliation deadline for all plan year 2006 applications to June 30, 2008.

The State of New Hampshire

The State of New Hampshire (the State) offers prescription drug coverage to its retired employees. The State uses third party vendors to administer the retiree prescription drug plan and to report retiree drug costs to CMS on the State's behalf.

The State's 2006 plan year (July 1, 2005, through June 30, 2006) included 6,290 qualifying covered retirees. In October 2006, the State received an interim subsidy payment of \$1,783,586 for the 2006 plan year based on cost data that the State submitted. The State completed final reconciliation for the 2006 plan year on June 18, 2008.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our review were to determine whether the State (1) met the requirements to be a plan sponsor, (2) ensured that drug subsidy costs were reported on behalf of qualifying covered retirees, (3) established administrative safeguards over retiree data included on the RDS secure Web site, and (4) ensured the accuracy of costs reported on its interim cost report.

Scope

We reviewed the State's plan year 2006 RDS application, retiree lists, retiree response and notification files, and interim and final cost reports. Our review was limited to determining whether the State reported drug costs for qualifying covered retirees and for applicable periods of RDS eligibility. We also reviewed the differences between the amounts included on the State's interim and final cost reports. We did not determine the allowability of the drug costs reported.

Our objectives did not require an understanding or assessment of the complete internal control system at the State. We limited our review of internal controls to obtaining an understanding of the State's processes for (1) monitoring and updating its retiree files and

coordinating with its outside vendors to ensure that costs claimed for subsidy payments represent costs for qualifying covered retirees and (2) ensuring the accuracy of interim cost reporting.

We performed our field work at the State's Department of Administrative Services' Risk Management Unit in Concord, New Hampshire, in October 2008.

Methodology

To accomplish our objectives, we:

- reviewed applicable laws, regulations, Medicare program guidance, and the American Academy of Actuaries' (AAA) guidance;
- verified that the State's actuary had completed and submitted the required attestation in accordance with CMS and AAA guidance;
- reviewed the State's notice of creditable coverage sent to Part D eligible retirees for the 6 months beginning January 1, 2006;
- interviewed State personnel to obtain an understanding of their RDS application process and their procedures for submitting retiree files to CMS and processing retiree response and notification files received from CMS;
- reviewed the State's 2006 plan year RDS application to determine whether the information provided was complete, accurate, and timely and to verify that CMS had approved the application;
- selected a judgmental sample of 50 plan year 2006 retirees deemed eligible for participation in the RDS program and reviewed information from the Medicare Beneficiary Database to determine whether the sampled retirees were Medicare eligible, Part D eligible, and not enrolled in a Part D prescription drug plan;
- reviewed documentation provided by the State to determine if the sampled retirees met the State's criteria for retiree health coverage and were enrolled in a retiree health plan approved for the RDS;
- reviewed detailed drug costs supporting the State's plan year 2006 reconciliation cost report to determine whether the State reported gross retiree drug costs on behalf of qualifying covered retirees and within each retiree's valid subsidy period;
- reviewed the State's interim and reconciliation cost reports and analyzed the differences between the costs submitted and the subsidy payments received; and

- identified the State's secure Web site users for the plan year 2006 application and determined whether the users were assigned and registered in accordance with program policies.

We conducted our review 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 finding and conclusion based on our audit objectives.

FINDING AND RECOMMENDATION

The State met the requirements to be a plan sponsor, ensured that drug subsidy costs were reported on behalf of qualifying covered retirees, and established administrative safeguards over retiree data included on the RDS website. However, the State did not ensure that drug costs were accurately reported on its interim cost report. For the 2006 plan year, the State received a subsidy payment of \$1,783,586 based on its interim cost report. At final reconciliation, the State's subsidy payment amounted to \$1,619,516, resulting in an overpayment of \$164,070.

This overpayment occurred because the State had not established sufficient controls to ensure that the amounts reported on its interim cost report were accurate. The State has returned the overpayment to CMS.

COST REPORTING ACCURACY

Federal Requirements

Pursuant to 42 CFR § 423.888(b), plan sponsors receive subsidy payments on the condition that they provide accurate information. By signing the plan sponsor agreement, the plan sponsor accepts and agrees to this requirement. In addition, the plan sponsor certifies that the cost data included in each subsidy payment request is true, accurate, and complete.

Inaccurate Interim Cost Reports

The State received an interim subsidy payment of \$1,783,586 based on the interim cost report that the State submitted for payment in October 2006. However, the State's interim cost report contained inaccurate cost data. To correct these inaccuracies, the State made significant revisions on its reconciliation cost report filed in June 2008. As a result of these revisions, the State's final subsidy payment was \$1,619,516, or \$164,070 less than the interim subsidy payment that the State had received from CMS.

This \$164,070 overpayment occurred because the State had not established sufficient controls to ensure that the amounts reported on its interim cost report were accurate. The State has returned the overpayment to CMS.

RECOMMENDATION

We recommend that the State strengthen its controls to ensure that it accurately reports drug costs on its interim cost reports.

STATE COMMENTS

In written comments on our draft report, the State outlined the status of current and planned actions that it was taking in response to our recommendation. The State's comments appear in their entirety in the Appendix.

APPENDIX



State of New Hampshire

DEPARTMENT OF ADMINISTRATIVE SERVICES

OFFICE OF THE COMMISSIONER

25 Capitol Street – Room 120

Concord, New Hampshire 03301

LINDA M. HODGDON
Commissioner
(603) 271-3201

JOSEPH B. BOUCHARD
Assistant Commissioner
(603) 271-3204

October 28, 2009

Mr. Michael J. Armstrong
Regional Inspector General
for Audit Services
Office of Audit Services
Region I
John F. Kennedy Federal Building
Room 2425
Boston, MA 02203

Re: Report Number: A-01-08-00602

Dear Mr. Armstrong:

Thank you for your letter of September 28, 2009 and the attached *Review of Retiree Drug Subsidy Plan Sponsor State of New Hampshire for Plan Year Ended June 30, 2006* (the "Review"). This letter is to inform you that the State of New Hampshire does not intend to provide any written comments in response to the *Review*, other than to thank the U.S Department of Health and Human Services, Office of Inspector General (OIG), for the courteous and professional manner in which it conducted its review.

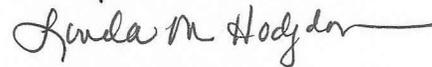
The State would like to provide a brief report on the status of our actions, undertaken and planned, in response to the sole recommendation of the OIG in the *Review*. As you know, in the OIG *Review*, your Office determined that the State "had not established sufficient controls to ensure that the amounts reported on its interim cost report were accurate". The OIG recommended in the *Review* "that the State strengthen its controls to ensure that it accurately reports drug costs on its interim cost reports".

In response to this recommendation, the State, through its Employee and Retiree Health Benefit Program (the "Program"), which is administered in my agency, has undertaken to establish a quarterly cost review process with its pharmacy benefits manager. While the Program currently reviews all of its plan prescription drug costs and member utilization information on a quarterly basis, it has not actively matched that information with the interim reports. Beginning with the next quarterly review in December 2009, the Program will additionally consider the Over 65 plan cost information in association with the current Retiree Drug Subsidy (RDS) program thresholds and limits. In addition, the

Program will review the RDS eligibility information so that only those costs associated with eligible retirees will be considered. Under this process, Program staff will become better acquainted with the specific cost information submitted to RDS on behalf of the State. With the knowledge gained from this acquaintance, the State will be better able to review the interim cost reports for reasonableness.

Thank you again for the Review. The State is pleased with the outcome of the Review, and eager to improve the quality of its participation in this important federal program.

Sincerely,

A handwritten signature in cursive script that reads "Linda M. Hodgdon" followed by a horizontal flourish.

Linda M. Hodgdon,
Commissioner

LMH/rjk