DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

JUN 29 2007

Report Number: A-04-07-06001

Jennifer Giannotti, Vice President
of Finance and Human Resources
Windsor Health Plan of TN, Inc.
7100 Commerce Way, Suite 285
Brentwood, Tennessee 37027

Dear Ms. Giannotti:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Administrative Costs Projected by Windsor Health Plan of TN for Calendar Year 2007."

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 are made available to members of the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise. (See 45 CFR part 5.)

If you have any questions or comments about this report, please do not hesitate to contact me at (404) 562-7750 or at peter.barbera@oig.hhs.gov or Mary Ann Moreno, Audit Manager, at (904) 232-2687 or at mary.moreno@oig.hhs.gov. Please refer to report number A-04-07-06001 in all correspondence.

Sincerely,

Peter J Barbera

Peter J. Barbera
Regional Inspector General
for Audit Services, Region IV

Enclosures

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

ADMINISTRATIVE COSTS PROJECTED BY WINDSOR HEALTH PLAN OF TN FOR CALENDAR YEAR 2007

Daniel R. Levinson
Inspector General

June 2007
A-04-07-06001

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

Managed Care Organizations (MCO) are entities that serve Medicare or Medicaid beneficiaries on a risk basis through a network of employed or affiliated providers and generally include health maintenance organizations (HMO), preferred provider organizations, and point of service plans. MCOs are certified by the Centers for Medicare & Medicaid Services as meeting Medicare Advantage (MA) contract requirements. Beginning in 2006, MA organizations were required to submit an annual aggregate bid amount for each MA plan. Each bid submission must contain all estimated revenue required to cover the plan's costs, including administrative costs.

Windsor Health Plan of TN, Inc. (Windsor), a Tennessee for-profit corporation, was incorporated on May 14, 1993, as an HMO for the purpose of providing managed health care services to residents of Tennessee, including those in the State of Tennessee's Medicaid Program, TennCare. For calendar year (CY) 2007, Windsor anticipates offering 30 plans with a total enrollment of 269,501 member months. Windsor projected administrative costs of $24,517,598 to meet the revenue requirements of the plans.

OBJECTIVE

Our objective was to determine whether Windsor's anticipated administrative costs were actuarially supported and reasonably and equitably reflected revenue requirements in accordance with Federal regulations.

SUMMARY OF RESULTS

Bid summary forms submitted by Windsor contained revenue estimates, including administrative costs, required for each plan. Windsor projected $24,517,598 in administrative costs for CY 2007 that were actuarially supported and reasonably and equitably reflected revenue requirements in accordance with Federal regulations. Therefore, we are not making any recommendations.

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Managed Care Organization

Managed Care Organizations (MCO) are entities that serve Medicare or Medicaid beneficiaries on a risk basis through a network of employed or affiliated providers and generally include health maintenance organizations (HMO), preferred provider organizations, and point of service plans.

Medicare Advantage Organizations

A Medicare Advantage (MA) organization is a private or public entity organized and licensed by a State as a risk-bearing entity, such as an MCO, that is certified by the Centers for Medicare & Medicaid Services (CMS) as meeting MA contract requirements.

Medicare Advantage Legislation

Title II of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) replaced the Medicare+Choice program with a new MA program under Part C of Medicare. Beginning in 2006, payments for local and regional MA plans were based on competitive bids. MA organizations had to submit an annual aggregate bid amount for each MA plan. Each bid submission must contain all estimated revenue required to cover the plan's costs, including administrative costs.

The MMA grants the Secretary authority similar to the authority of the Director of the Office of Personnel Management with respect to health benefit plans. Specifically, the Secretary may only accept a bid amount or proportion if the Secretary determines that such amount and proportions are actuarially supported and reasonably and equitably reflect the revenue requirements of benefits provided under that plan.

The final provisions set forth in the MMA are codified in 42 CFR § 422, the MA Program.

Medicare Advantage Organization Payments

Payment to an MA organization depends on the following relationships of the plan's basic A/B bid to the plan benchmark (A/B bid refers to the cost of providing Medicare Part A and Part B benefits. The basic A/B bid is also referred to as the non-drug bid):

- For a plan with a bid below its benchmark, CMS will pay the MA organization the basic A/B bid amount, adjusted by the individual enrollee's risk factor, plus the rebate amount. (The rebate is 75 percent of the difference between the plan bid and the benchmark and is used to provide mandatory supplemental benefits or

reductions in Part B or Part D premiums. The Government retains the other 25 percent.)

- For a plan with a bid equal to or above its benchmark, CMS will pay the MA organization the plan benchmark, adjusted by the individual enrollee's risk factor. (In addition, CMS would pay the bid amount, if any, for Part D basic coverage.)

Federal regulations (42 CFR §§ 422.258 and 422.306) detail the calculation of benchmarks and annual MA capitation rates, respectively.

Windsor Health Plan of TN, Inc.

Windsor Health Plan of TN, Inc. (Windsor), a Tennessee for-profit corporation, was incorporated on May 14, 1993 as an HMO for the purpose of providing managed health care services to residents of Tennessee, including those in the State of Tennessee's Medicaid Program, TennCare. For calendar year (CY) 2007, Windsor anticipates offering 30 plans with a total enrollment of 269,501 member months. Windsor projected administrative costs of $24,517,598 to meet the revenue requirements of the plans.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Windsor's anticipated administrative costs were actuarially supported and reasonably and equitably reflected revenue requirements in accordance with Federal regulations.

Scope

Our audit covered the administrative costs included in the CMS bid summary forms Windsor submitted in 2006.[1]

Our review of internal controls was limited to Windsor's controls over estimating and allocating administrative costs for the MA plans.

We performed fieldwork in February 2007 at Windsor's offices in Nashville, Tennessee.

Methodology

To accomplish our objective, we:

- reviewed applicable laws, regulations, and Medicare guidelines for MA plans;

[1]The bids submitted in 2006 are for plans Windsor intends to offer in CY 2007.

- obtained Windsor's bid summary forms and administrative cost supporting documentation to determine if the costs reasonably and equitably reflected revenue requirements in accordance with Federal regulations;

- reviewed the actuarial certification; and

- reviewed Windsor's policies and procedures to determine whether policies existed to segregate costs by plan.

Our review was conducted in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Bid summary forms submitted by Windsor contained revenue estimates, including administrative costs, required for each plan. Windsor projected $24,517,598 in administrative costs for CY 2007 that were actuarially supported and reasonably and equitably reflected revenue requirements in accordance with Federal regulations. Therefore, we are not making any recommendations.