Memorandum

Date . FEB 9 1996

From June Gibbs Brown
Inspector General

Subject Review of Medicare Payments to Health Maintenance Organizations for End Stage Renal Disease Beneficiaries (A-04-94-01090)

To

Bruce C. Vladeck
Administrator
Health Care Financing Administration

Attached are two copies of our final report entitled, "Review of Medicare Payments to Health Maintenance Organizations for End Stage Renal Disease Beneficiaries." Our review shows that between October 1990 and February 1995 approximately $35.7 million in overpayments has been made to health maintenance organizations (HMO) and competitive medical plans (CMP) for Medicare beneficiaries inappropriately identified as having end stage renal disease (ESRD). Our review also indicates that these risk-based HMOs\CMPs continue to receive the enhanced ESRD payment amount for beneficiaries misclassified as having ESRD. This is due to systems weaknesses at the Health Care Financing Administration (HCFA).

The objective of our review was to determine the appropriateness of the Medicare payments made to risk-based HMOs\CMPs for beneficiaries classified as having ESRD. The fixed monthly payment to HMOs\CMPs is increased for certain high-cost categories of beneficiaries such as beneficiaries who are classified as having ESRD.

Initially, we performed detailed reviews of the eligibility of ESRD-classified beneficiaries at two HMOs--Humana Medical Plan, Inc. in Florida and PacifiCare of Texas. These two audits identified beneficiaries inappropriately classified as having ESRD. These inappropriate classifications were caused by systems weaknesses at HCFA. We found that when an HMO\CMP attempts to enroll a beneficiary who has an active ESRD indicator, the enrollment is automatically denied. However, if a plan advises HCFA that the beneficiary no longer meets the ESRD definition, HCFA staff enrolls the beneficiary but HCFA's systems do not recognize ESRD termination. As a result, the higher ESRD capitation rate is triggered. We alerted HCFA to our preliminary findings in a memorandum dated June 15, 1994 (A-04-94-01090). We also issued reports to Humana (A-04-94-01096) and to PacifiCare (A-06-94-00028) on our findings.

Based on the findings of the reviews at Humana and PacifiCare, we continued our review to quantify the potential overall national effect of the systems weaknesses. We requested and received a detailed listing from HCFA identifying ESRD-classified beneficiaries who, according to HCFA records, had an ESRD start date prior to his/her enrollment date in an HMO\CMP and were not designated as a prior commercial member. Federal regulations prohibit a beneficiary who has been medically diagnosed as having ESRD from enrolling in an HMO\CMP unless the beneficiary is a commercial member of the plan immediately prior to the beneficiary's Medicare enrollment in the plan.

According to the data provided by HCFA, capitation payments totaling approximately $40.3 million have been made to risk-based plans between October 1990 and February 1995 on behalf of beneficiaries misclassified as having ESRD using the above criteria. Although the HMOs\CMPs received substantially more money than they should have for these incorrectly identified ESRD cases, they are entitled to receive a non-ESRD monthly capitation payment. Using HCFA's national demographic cost factors on each misclassified beneficiary and the Standardized Per Capita Rates of Payment tables, we calculated the correct capitation payment to be about $4.6 million for this period--an overpayment of approximately $35.7 million.

We are recommending that HCFA advise all risk-based HMOs\CMPs that ESRD capitation rates are only effective for beneficiaries who currently are diagnosed as having ESRD; recover the $35.7 million in overpayments identified through February 1995 as well as subsequent overpayments that have occurred; and make systemic and procedural changes to prevent future overpayments. In response to our draft report, HCFA concurred with our recommendations. The HCFA's response has been included in its entirety as the Attachment to this report.

If you have any questions, please call me or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 786-7104. Please advise us, within 60 days, on actions taken or planned on our recommendations. Copies of this report are being sent to other interested Department officials.

To facilitate identification, please refer to Common Identification Number A-04-94-01090 in all correspondence relating to this report.

Attachments

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MEDICARE PAYMENTS TO HEALTH MAINTENANCE ORGANIZATIONS FOR END STAGE RENAL DISEASE BENEFICIARIES

JUNE GIBBS BROWN
Inspector General

FEBRUARY 1996
A-04-94-01090

Memorandum

Date FEB 9 1996

From June Gibbs Brown
Inspector General

Subject Review of Medicare Payments to Health Maintenance Organizations for End Stage Renal Disease Beneficiaries (A-04-94-01090)

To Bruce C. Vladeck
Administrator
Health Care Financing Administration

This final report provides you with the results of our review of Medicare payments made to risk-based health maintenance organizations (HMO) and competitive medical plans (CMP) on behalf of beneficiaries classified as having end stage renal disease (ESRD). The Health Care Financing Administration (HCFA) authorizes fixed monthly payments to HMOs\CMPs for Medicare beneficiaries. Monthly payment rates for ESRD-classified beneficiaries are about 7 to 10 times greater than the regular non-ESRD payment rate.

OBJECTIVE

The objective of our review was to determine the appropriateness of Medicare payments made to risk-based HMOs\CMPs for ESRD beneficiaries. Generally, individuals who have been medically determined to have ESRD are not eligible to enroll in an HMO\CMP as a Medicare beneficiary unless the individual is a commercial member of the HMO\CMP just prior to Medicare eligibility.

SUMMARY OF FINDINGS

Risk-based HMOs\CMPs have received, and are continuing to receive, millions of dollars in overpayments on behalf of beneficiaries who are inappropriately classified as having ESRD. Overpayments to these plans between October 1990 and February 1995 totaled approximately $35.7 million. This is due to a weakness in HCFA's systems.

To accomplish our audit objective, we worked with HCFA to create a detailed listing of ESRD-classified beneficiaries who, according to HCFA records, had an ESRD start date prior to his/her enrollment date in a Medicare HMO\CMP

plan and were not designated as a prior commercial member of that plan. This situation would be indicative of an inappropriately classified ESRD beneficiary in an HMO\CMP.

According to the data provided by HCFA, capitation payments totaling approximately $40.3 million have been made to risk-based plans between October 1990 and February 1995 on behalf of beneficiaries misclassified as having ESRD. The HMOs\CMPs should have received only about $4.6 million in capitation payments for these beneficiaries. As a result, there is an approximate $35.7 million in overpayments.

We are recommending that HCFA advise all risk-based HMOs\CMPs that ESRD capitation rates are only effective for beneficiaries who currently are diagnosed as having ESRD; recover the $35.7 million in overpayments identified through February 1995 as well as subsequent overpayments that have occurred; and make systemic and procedural changes to prevent future overpayments. In response to our draft report, HCFA concurred with our recommendations. The HCFA's response has been included in its entirety as the Attachment to this report.

BACKGROUND

The HCFA contracts with HMOs\CMPs to provide comprehensive health services on a prepayment basis to enrolled Medicare beneficiaries. The HCFA authorizes fixed monthly payments to risk-based plans for each enrolled Medicare beneficiary. The payment rates are adjusted by a set of risk factors such as the beneficiary's age, gender, and Medicare entitlement status. An increased payment rate is made for certain high-cost categories of beneficiaries. One of these high-cost categories is for ESRD beneficiaries.

When HCFA is notified that a beneficiary is medically determined to have ESRD (i.e., has kidney impairment that appears irreversible and permanent and requires a regular course of dialysis or kidney transplantation to maintain life), an ESRD indicator is entered in HCFA's Medicare Enrollment Database and is passed on to HCFA's ESRD Program Management and Medical Information System (PMMIS). The Group Health Plan (GHP) system, which maintains enrollment and payment information for beneficiaries enrolled in managed care plans, accesses PMMIS for ESRD information. If ESRD data for a beneficiary is present, the GHP system triggers a capitation rate to the

HMO\CMP which, according to HCFA staff is about 7 to 10 times greater than the normal fixed managed care payment amount. For example, at Humana Medical Plan, Inc. in Florida (Humana) we analyzed the 1992 HCFA GHP 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 capitation rate for regular Medicare beneficiaries averaged approximately $345 per month. However, for ESRD beneficiaries, Humana's capitation rate averaged approximately $2,700 per month.

SCOPE

The objective of our review was to determine the appropriateness of the Medicare payments made to risk-based HMOs\CMPs for ESRD beneficiaries.

Initially, we performed detailed reviews of the eligibility of ESRD-classified beneficiaries at two HMOs. At Humana we reviewed the medical and financial records for all 212 beneficiaries classified by HCFA in September 1992 as ESRD-eligible. We also verified the ESRD pay status with HCFA for these beneficiaries. At PacifiCare of Texas (PacifiCare) we verified the ESRD status of all 12 beneficiaries identified by HCFA in December 1993 as ESRD-eligible. These two audits identified beneficiaries inappropriately classified as having ESRD. These inappropriate classifications were caused by systems weaknesses at HCFA. We alerted HCFA to our preliminary findings in a memorandum dated June 15, 1994 (A-04-94-01090). We also issued reports to Humana (A-04-94-01096) and to PacifiCare (A-06-94-00028) on our findings.

Based on the findings of the reviews at Humana and PacifiCare, we continued our review to quantify the potential overall national effect of the systems weaknesses. We requested and received a detailed listing from HCFA identifying ESRD-classified beneficiaries who, according to HCFA records, had an ESRD start date prior to his/her enrollment date in an HMO\CMP and were not designated as a prior commercial member. This situation would be indicative of an inappropriately classified ESRD beneficiary in an HMO\CMP.

At our request, HCFA has identified 105 risk-based plans which received capitation payments totaling approximately $40.3 million between October 1990 and February 1995 on behalf of misclassified ESRD

beneficiaries. Included in HCFA's listing were the beneficiaries enrolled in Humana and PacifiCare where we did our initial detailed reviews. Using HCFA's national demographic cost factors on each misclassified beneficiary and the Standardized Per Capita Rates of Payment tables, we calculated the total correct capitation payments to the plans for this period to be approximately $4.6 million.

Field work for our detailed reviews of the two HMOs was performed at Humana headquarters in Louisville, Kentucky, and Humana offices in Tampa, Orlando, Daytona, and Miami, Florida; and at PacifiCare in San Antonio, Texas. Our subsequent work was done at HCFA headquarters in Baltimore, Maryland and in our Raleigh, North Carolina office between November 1994 and September 1995. Our review was made in accordance with generally accepted government auditing standards.

DETAILED FINDINGS

Our detailed reviews and subsequent analysis of data provided by HCFA have shown that risk-based plans have received approximately $35.7 million in improper payments on behalf of beneficiaries who were erroneously classified as having ESRD. This was due to a weakness in HCFA's systems.

CRITERIA - MEDICARE REGULATIONS

A person who has ESRD is entitled to Medicare benefits pursuant to section 226A of the Social Security Act. Federal regulations found at 42 CFR 406.13 define ESRD and specify when Medicare entitlement based on ESRD ends. The regulations define ESRD as the stage of kidney impairment that appears irreversible and permanent and requires a regular course of dialysis or kidney transplantation to maintain life. The regulations state that "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."

Once the entitlement period ends, a beneficiary is no longer classified as having ESRD.

Regulations at 42 CFR 417.422(b) prohibit Medicare beneficiaries who have been medically diagnosed as having ESRD from enrolling in an HMO\CMP. An exception (42 CFR 417.432(e)(2)) exists for individuals who have ESRD and are commercial members of the HMO\CMP immediately prior to Medicare enrollment in the same plan. These ESRD individuals, therefore, may remain in the HMO\CMP when they become eligible for Medicare.

Beneficiaries who develop ESRD after enrollment in the HMO\CMP may also remain enrolled.

CONDITION - MEDICARE BENEFICIARIES INAPPROPRIATELY CLASSIFIED AS HAVING ESRD

Our detailed work at Humana and PacifiCare identified 29 beneficiaries who were inappropriately classified as having ESRD. At Humana we determined that 25 of the 212 ESRD-classified beneficiaries were inappropriately classified. At PacifiCare we determined that 4 of the 12 ESRD-classified beneficiaries were inappropriately classified. These beneficiaries had not met the requirements for ESRD eligibility--they had not received dialysis in the most recent 12 months or had received a successful kidney transplant more than 3 years ago.

Overpayments for the 25 beneficiaries at Humana totaled $1.6 million between October 1, 1990 and December 31, 1993. Overpayments for the four beneficiaries at PacifiCare totaled approximately $157,000 between January 1992 and December 1993. Both Humana and PacifiCare agreed with our findings and concurred with our recommendations to return the overpayments to Medicare.

CAUSE - HCFA SYSTEM DOES NOT RECOGNIZE STATUS CHANGES OF ESRD BENEFICIARIES

We determined the overpayments identified in our reviews at Humana and PacifiCare were part of a HCFA systems problem. When an HMO\CMP attempts to enroll a beneficiary who has an active ESRD indicator on HCFA's PMMIS system, the enrollment is automatically denied by the GHP system because ESRD beneficiaries are prohibited from joining an HMO\CMP. However, if a plan advises HCFA that the beneficiary has not received dialysis in the most recent 12 months or has received a successful kidney transplant more than 3 years ago, HCFA staff enrolls the beneficiary but has not been removing the ESRD designation from the PMMIS. If the PMMIS contains the ESRD designation, the GHP system triggers the ESRD capitation rate rather than the regular capitation rate to the HMO\CMP.

EFFECT - MILLIONS IN OVERPAYMENTS HAVE BEEN MADE ON BEHALF OF MISCLASSIFIED ESRD BENEFICIARIES

The HCFA provided us with a listing of all beneficiaries enrolled in risk-based plans who had an ESRD start date prior to enrollment date and who were not prior commercial members of the plans. In that listing HCFA identified approximately $40.3 million made to 105 HMOs\CMPs on behalf of 850 misclassified ESRD beneficiaries between October 1990 and February 1995. However, the plans are entitled to about $4.6 million in non-ESRD capitation rate for these beneficiaries. The result is an overpayment of approximately $35.7 million to these plans. A breakdown of the $35.7 million by HMO\CMP is provided in the Appendix to this report.

RECOMMENDATIONS

We recommend that HCFA:

- immediately advise all HMOs and CMPs that ESRD capitation rates are only effective for beneficiaries who currently are diagnosed as having ESRD and all payments for misclassified beneficiaries are overpayments subject to recovery,

- replace any erroneous information in its files concerning ESRD status and recover the $35.7 million in overpayments already identified as well as subsequent overpayments that have occurred; and

- make procedural and systems changes to prevent further erroneous classifications of ESRD status and overpayments due to such misclassifications.

HCFA COMMENTS

In response to our draft report, HCFA concurred with our recommendations. The HCFA's response has been included in its entirety as the Attachment to this report.

OVERPAYMENTS TO RISK-BASED HMOs\CMPs FOR BENEFICIARIES MISCLASSIFIED AS HAVING ESRD

PLAN	10/90 - 12/90	1991	1992	1993	1994	1/95 - 2/95	TOTAL
1	$38,129	$377,717	$907,936	$1,298,947	$1,910,733	$333,702	$4,867,165
2	42,237	430,996	641,529	1,230,563	1,941,715	386,490	4,673,530
3	21,334	295,622	674,981	961,681	1,532,413	295,513	3,781,544
4	0	0	0	812,506	783,727	140,626	1,736,859
5	11,311	125,882	276,990	455,844	693,815	127,549	1,691,392
6	0	20,731	320,515	425,369	472,845	79,819	1,319,279
7	0	39,753	158,028	358,941	621,200	136,767	1,314,690
8	1,928	112,474	244,134	266,165	431,714	106,624	1,163,039
9	30,056	224,628	329,094	162,155	225,273	35,938	1,007,145
10	11,266	93,112	176,745	176,736	278,448	47,203	783,509
11	0	0	59,413	241,249	339,638	51,165	691,465
12	1,796	63,434	78,433	151,359	301,230	59,144	655,396
13	0	24,987	99,495	195,780	189,915	34,983	545,159
14	0	42,378	86,102	152,902	189,382	34,583	505,346
15	4,691	40,609	56,288	109,644	199,727	30,262	441,220
16	0	31,336	100,348	82,063	141,848	18,725	374,320
17	3,668	54,425	39,653	78,133	143,570	33,438	352,885
18	7,977	47,089	27,117	74,866	155,319	32,541	344,908
19	5,325	46,115	54,396	71,738	127,767	34,014	339,354
20	0	0	0	3,002	88,050	242,917	333,969
21	0	0	17,485	91,830	191,613	27,175	328,103
22	0	0	24,776	79,468	172,139	35,756	312,139
23	5,148	63,524	80,614	58,425	83,489	20,517	311,716
24	14,702	39,468	47,538	98,131	92,801	7,272	299,912
25	5,678	58,060	55,683	61,740	89,996	23,393	294,550
26	0	37,706	48,578	80,106	100,946	22,532	289,868
27	0	0	12,029	52,635	179,360	28,706	272,730
28	0	33,118	47,151	57,376	95,374	17,623	250,644

OVERPAYMENTS TO RISK-BASED HMOs\CMPs FOR BENEFICIARIES MISCLASSIFIED AS HAVING ESRD

PLAN	10/90 - 12/90	1991	1992	1993	1994	1/95 - 2/95	TOTAL
29	3,252	21,471	66,349	28,150	97,445	28,880	245,547
30	0	6,721	71,745	85,949	46,788	6,589	217,792
31	0	9,220	35,130	34,382	138,835	0	217,567
32	0	0	0	0	147,299	64,366	211,665
33	3,386	22,749	26,487	56,229	72,83 i	25,567	207,249
34	0	1,993	30,557	81,718	74,863	12,534	201,665
35	0	0	16,605	63,506	96,930	6,020	183,062
36	0	14,192	29,976	59,276	64,652	12,839	180,934
37	6,015	29,775	64,663	79,468	0	0	179,920
38	0	0	0	0	157,257	18,540	175,797
39	0	0	0	0	131,055	35,605	166,660
40	0	0	0	0	108,459	58,086	166,544
41	0	0	2,421	29,716	107,644	24,276	164,057
42	0	0	4,953	41,507	95,142	18,036	159,638
43	0	0	33,737	38,802	81,336	0	153,874
44	0	18,740	42,776	28,193	50,112	11,302	151,123
45	0	0	0	11,096	104,271	21,552	136,920
46	0	0	1,948	50,562	71,432	11,615	135,557
47	0	0	0	32,017	88,391	14,109	134,518
48	0	0	35,959	57,633	34,185	6,179	133,957
49	0	21,792	25,148	8,897	64,014	12,834	132,684
50	0	0	14,446	36,081	61,889	11,386	123,802
51	0	0	0	43,579	66,955	12,357	122,891
52	0	0	7,266	35,407	70,351	0	113,023
53	0	3,090	22,979	30,619	55,666	0	112,354
54	0	0	0	2,600	80,983	26,157	109,739
55	0	0	0	16,369	83,024	9,962	109,355
56	0	0	0	8,566	64,072	27,161	99,799

OVERPAYMENTS TO RISK-BASED HMOs\CMPs FOR BENEFICIARIES MISCLASSIFIED AS HAVING ESRD

PLAN	10/90 - 12/90	1991	1992	1993	1994	1/95 - 2/95	TOTAL
57	0	0	12,011	48,539	31,600	5,696	97,845
58	1,656	20,710	19,236	14,356	34,891	6,835	97,683
59	0	24,440	37,210	30,029	3,413	0	95,093
60	0	9,291	0	0	67,073	14,764	91,128
61	0	0	0	0	72,299	16,518	88,817
62	0	7,837	31,209	30,576	18,571	0	88,194
63	0	25,578	58,808	0	0	0	84,386
64	1,980	28,086	35,711	15,378	0	0	81,155
65	0	0	0	0	56,373	20,746	77,119
66	0	0	0	21,397	31,930	5,834	59,161
67	0	0	0	13,539	37,710	7,021	58,270
68	0	0	0	0	42,460	13,238	55,698
69	0	9,193	44,898	0	0	0	54,092
70	0	20,873	32,638	0	0	0	53,511
71	0	0	0	0	31,890	17,238	49,127
72	0	0	15,468	31,023	0	0	46,492
73	4,342	4,492	26,154	0	10,857	0	45,846
74	0	0	0	0	30,072	15,318	45,390
75	0	0	0	0	26,810	17,980	44,790
76	0	15,544	28,756	0	0	0	44,300
77	0	0	0	2,693	34,815	6,268	43,776
78	0	0	0	0	35,746	6,376	42,122
79	0	0	0	0	33,439	6,822	40,261
80	0	0	10,094	29,284	0	0	39,378
81	0	0	14,234	0	16,874	7,517	38,625
82	0	0	0	14,538	24,083	0	38,622
83	0	0	0	0	26,959	5,929	32,889
84	0	0	0	0	13,794	18,161	31,955

OVERPAYMENTS TO RISK-BASED HMOs\CMPs FOR BENEFICIARIES MISCLASSIFIED AS HAVING ESRD

PLAN	10/90 - 12/90	1991	1992	1993	1994	1/95 - 2/95	TOTAL
85	0	0	0	0	20,297	10,913	31,211
86	0	0	0	0	23,072	6,451	29,523
87	0	0	0	0	10,780	18,197	28,977
88	0	0	0	0	16,031	7,183	23,214
89	0	20,340	0	0	0	0	20,340
90	0	0	0	0	12,167	6,734	18,901
91	0	0	0	12,877	5,895	0	18,772
92	0	0	0	0	17,940	0	17,940
93	0	0	0	0	3,172	14,508	17,680
94	0	0	0	0	10,369	5,639	16,008
95	0	0	0	0	6,461	7,129	13,590
96	0	10,621	0	2,376	0	0	12,996
97	0	0	0	0	5,364	5,963	11,328
98	0	0	0	0	5,422	5,745	11,167
99	0	0	0	0	2,762	6,132	8,895
100	0	0	0	0	6,368	0	6,368
101	0	0	0	0	0	6,303	6,303
102	0	0	0	0	0	6,053	6,053
103	0	0	0	0	0	5,928	5,928
104	0	0	0	0	0	5,765	5,765
105	3,808	0	0	0	0	0	3,808
TOTALS	229,685	2,649,912	5,564,623	9,116,281	14,917,685	3,231,833	35,710,021

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care
Financing Administration

Memorandum

DATE DEC 22 1995

TO June Gibbs Brown
Inspector General

FROM Bruce C. Vladeck
Administrator

SUBJECT Office of Inspector General Draft Report: "Review of Medicare Payments to Health Maintenance Organizations (HMOs) for End Stage Renal Disease (ESRD) Beneficiaries," (A-04-94-01090)

We reviewed the above-referenced report which examined the appropriateness of Medicare payments made to risk-based HMOs for ESRD beneficiaries. Attached are our comments on the report recommendations.

Thank you for the opportunity to review and comment on this draft report.

Attachment

Comments of the Health Care Financing Administration (HCFA) on the Office of Inspector General (OIG) Draft Report: "Review of Medicare Payments to Health Maintenance Organizations (HMOs) for End Stage Renal Disease (ESRD) Beneficiaries, (A-04-94-01090)

OIG Recommendation

HCFA should immediately advise all HMOs and Competitive Medical Plans that ESRD capitation rates are only effective for beneficiaries who currently are diagnosed as having ESRD and all payments for misclassified beneficiaries are overpayments subject to recovery.

HCFA Response

We concur. HCFA has notified the plans about the use of ESRD end dates.

OIG Recommendation

HCFA should replace any erroneous information in its files concerning ESRD status and recover the $35.7 million in overpayments already identified as well as subsequent overpayments that have occurred.

HCFA Response

We concur. HCFA is in the process of updating all data on the ESRD beneficiary population including those beneficiaries who have ever been in a managed care plan. Overpayments will be recovered when new procedures and systems are operational (currently scheduled for June 1996).

OIG Recommendation

HCFA should make procedural and systems changes to prevent further erroneous classifications of ESRD status and overpayments due to such misclassifications.

HCFA Response

We concur. HCFA is in the process of modifying its software to recognize and react to erroneous enrollment situations and to use ESRD end dates for both payment adjustment and enrollment decisions.