DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

OCT 17 2002

TO: Neil Donovan
Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

FROM: Dennis J. Duquette
Deputy Inspector General
for Audit Services

SUBJECT: Review of Managed Care Additional Benefits at Ochsner Health Plan of Louisiana for Contract Year 2000 (A-06-01-00048)

As part of self-initiated audits by the Office of Inspector General, we are alerting you to the issuance within 5 business days from the date of this memorandum of our final report entitled, "Review of Managed Care Additional Benefits at Ochsner Health Plan of Louisiana for Contract Year 2000." A copy of the report is attached. This report is one of a series of reports involving managed care additional benefits. We suggest that you share this report with components of the Centers for Medicare & Medicaid Services (CMS) involved in the Medicare managed care organization operations, particularly the Center for Health Plans and Policy.

The objective of our audit was to assess whether additional benefits proposed in Ochsner's Contract Year (CY) 2000 adjusted community rate proposal (ACRP) were available to Medicare beneficiaries as advertised and were comparable to costs actually incurred, and whether the actual additional benefits were properly valued.

Our review showed that, during 2000, Ochsner provided the additional benefits proposed in its CY 2000 ACRP. However, we found that Ochsner distributed the incorrect prescription drug formulary guide to its Medicare enrollees, resulting in overpayment of prescription drug copayments totaling $4,281 by 104 enrollees. Ochsner told us that they are refunding those overpayments.

Our comparison of Ochsner's projected prescription drug costs with actual 2000 prescription drug costs showed that, while the total amount expended for prescription drugs was more than projected in the ACRP, Ochsner's share of the total prescription drug expenditures was less than projected by an estimated $2.8 million. Conversely, Medicare beneficiaries paid more of the cost than projected in the form of higher copayments, estimated at $4.9 million. We made no recommendations to Ochsner regarding this finding.

We were unable to compare Ochsner's projected costs in its CY 2000 ACRP with actual 2000 costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education because Ochsner's accounting system could not separately identify those costs so that they could be audited.

To determine whether actual costs for additional benefits were properly valued, we focused our review on Ochsner's prescription drug benefit. Our analysis showed that the prescription drugs purchased in 2000 were properly valued and that the Medicare enrollees received value in excess of the copayments they paid. Ochsner provided prescription drugs to the Medicare enrollees at reduced rates by taking advantage of discounts negotiated with independent pharmacies that dispensed the drugs. The prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's commercial (non-Medicare) enrollees, as well as by the pharmaceutical industry as a whole.

In our report, we recommended that Ochsner:

- Ensure that all marketing materials provided to Medicare beneficiaries accurately reflect the benefits available; and

- Maintain an accounting system that accumulates costs consistent with the individual benefit categories included in the ACRP format to enable those costs to be audited and compared with the ACRP projections.

In its response to our draft report, Ochsner agreed with our conclusions and recommendations, with one exception. Ochsner stated that it had provided adequate support for the actual 2000 costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education, and that its accounting systems are more than adequate to allow the medical costs to be audited and compared with the ACRP projections. The Office of Inspector General maintains our original conclusion that we were unable to make a comparison between Ochsner's ACRP projections and its actual 2000 costs for all of the additional benefits, except prescription drugs, because we could not reconcile Ochsner's claims information with its general ledger information.

We would encourage CMS to consider closer scrutiny of Medicare+Choice Organizations (M+CO) that request permission to group a large portion of the health care components into one line item on their ACRPs, particularly those M+COs that seek this permission year after year. The M+COs that continually group many of the health care components into one line item should be able to demonstrate that their accounting systems can break out the costs for the individual health care components so that comparisons can be made between the ACRP projections and the actual costs, as required by CMS' ACRP instructions.

Any questions or comments on any aspect of our report are welcome. Please address them to George M. Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Audits, at (410) 786-7104, or Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, at (214) 767-8414.

Attachment

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF MANAGED CARE ADDITIONAL BENEFITS AT OCHSNER HEALTH PLAN OF LOUISIANA FOR CONTRACT YEAR 2000

JANET REHNQUIST
Inspector General

OCTOBER 2002
A-06-01-00048

DEPARTMENT OF HEALTH & HUMAN SERVICES Office of Inspector General

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

OCT 21 2002

Common Identification Number: A-06-01-00048

Mr. George Renaudin II
Senior Vice President-Administration
Ochsner Health Plan of Louisiana
One Galleria Boulevard, Suite 850
Metairie, Louisiana 70001-7542

Dear Mr. Renaudin:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Managed Care Additional Benefits at Ochsner Health Plan of Louisiana for Contract Year 2000." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR, Part 5). As such, within 10 business days after the final report is issued, it will be posted on the world wide web at http://oig.hhs.gov.

To facilitate identification, please refer to Common Identification Number A-06-01-00048 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

James R. Farris, MD
Regional Administrator
Centers for Medicare & Medicaid Services
1301 Young Street, Room 714
Dallas, Texas 75202

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

OCT 21 2002

Common Identification Number: A-06-01-00048

Mr. George Renaudin II
Senior Vice President - Administration
Ochsner Health Plan of Louisiana
One Galleria Boulevard, Suite 850
Metairie, Louisiana 70001-7542

Dear Mr. Renaudin:

This final report provides the results of our review of additional benefits offered by Ochsner Health Plan of Louisiana (Ochsner) in the Contract Year (CY) 2000 Adjusted Community Rate Proposal (ACRP). During 2000, Ochsner provided managed care services under a Medicare+Choice contract (Contract H-1951) to Medicare beneficiaries in Louisiana. The objective of our review was to assess whether:

- additional benefits proposed in Ochsner's CY 2000 ACRP were available to Medicare beneficiaries in accordance with Ochsner's marketing materials;
- estimated costs in the ACRP for the additional benefits were comparable to the costs actually incurred; and
- additional benefits offered were properly valued, and Medicare beneficiaries enrolled in the plan received value in excess of the copayments required to obtain the benefits.

Our review showed that, during 2000, Ochsner provided the additional benefits proposed in its CY 2000 ACRP. However, we found that Ochsner distributed the incorrect prescription drug formulary guide to its Medicare enrollees, resulting in an overpayment of prescription drug copayments totaling $4,281 by 104 enrollees. Ochsner officials told us they are refunding these overpayments.

Our comparison of Ochsner's projected costs in its CY 2000 ACRP to actual 2000 costs showed two areas of concern: (1) We were unable to compare the ACRP projections with actual costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education because Ochsner's accounting system could not separately identify those costs so that they could be audited; and (2) Ochsner's share of the total prescription drug expenditures was less than projected by an estimated $2.8 million. Conversely, Medicare beneficiaries paid more of the cost than projected, in the form of higher copayments, estimated at $4.9 million.

To determine whether actual costs for additional benefits were properly valued, we focused our review on Ochsner's prescription drug benefit. Our analysis showed that the prescription drugs purchased in 2000 were properly valued and that the Medicare enrollees received value in excess of the copayments they paid. Ochsner provided prescription drugs to the Medicare enrollees at reduced rates by taking advantage of discounts negotiated with independent pharmacies that dispensed the drugs. The prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's commercial (non-Medicare) enrollees, as well as by the pharmaceutical industry as a whole.

We recommended that Ochsner:

- Ensure that all marketing materials provided to Medicare beneficiaries accurately reflect the benefits available.

- Maintain an accounting system that accumulates costs consistent with the individual benefit categories included in the ACRP format to enable those costs to be audited and compared with the ACRP projections.

In its response to our draft report, Ochsner agreed with our conclusions and recommendations, with one exception. Ochsner stated that it did provide support for the actual 2000 costs for routine physical examinations and vision, chiropractic and hearing services, and that its accounting systems are more than adequate to allow the medical costs to be audited and compared with the ACRP projections. The Office of Inspector General (OIG) maintains our original conclusion that we were unable to make a comparison between Ochsner's ACRP projections and its actual 2000 costs for all of the additional benefits, except prescripton drugs, because we could not reconcile Ochsner's claims information with its general ledger information. Ochsner's complete response to our draft report is included as an Appendix to this report.

INTRODUCTION

BACKGROUND

The Medicare ACRP process is designed for Medicare+Choice organizations (M+COs) to present to the Centers for Medicare & Medicaid Services (CMS) their estimates of the funds needed to cover the medical and administrative costs of providing the Medicare package of covered services to any enrolled Medicare beneficiary. The ACRP process also includes providing estimates of additional benefits (e.g., prescription drugs and eyeglasses) the M+CO plans to offer its Medicare enrollees.

An M+CO must complete a separate ACRP for each coordinated care or private fee-for-service plan offered to Medicare beneficiaries. Through the ACRPs, M+COs present to CMS an initial rate that represents the "commercial premium" the organization would charge its non-Medicare enrollees for services included in the managed care plan. This initial rate is then adjusted by various factors described in the regulations, including the relative costs to Medicare beneficiaries, to establish an appropriate payment rate that reflects the characteristics of the Medicare population. The accuracy of the specific parts of the ACRP is critical to ensuring that M+COs receive appropriate payments that are consistent with their commercial premiums. The ACRP also provides a mechanism for the M+CO to provide additional benefits to Medicare beneficiaries if payments received exceed the properly adjusted commercial rate.

Additional benefits are health care services not covered by Medicare fee-for-service and/or reductions in premiums or cost sharing for Medicare-covered services. Additional benefits are specified by the M+COs at no additional premium. Those benefits must be at least equal in value to the adjusted excess amount calculated in the ACRP. An excess amount is created when the average payment rate (estimated monthly capitation payment received from CMS) exceeds the adjusted community rate (as reduced by the actuarial value of coinsurance, copayments, and deductibles under Parts A and B of Medicare).

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to assess whether:

- additional benefits proposed in Ochsner's CY 2000 ACRP were available to Medicare beneficiaries in accordance with Ochsner's marketing materials;

- estimated costs in the ACRP for the additional benefits were comparable to costs actually incurred; and

- additional benefits offered were properly valued, and the Medicare beneficiaries enrolled in the plan received value in excess of the copayments required to obtain the benefits.

Prescription drugs comprised about 86 percent of Ochsner's base year costs for additional benefits. Because Ochsner's accounting system did not provide an accurate accounting of costs for the other additional benefits besides prescription drugs, we focused our in-depth analysis on prescription drugs. Our review of those other additional benefits was limited to reviewing a small judgmental sample of claims for hearing, vision, and chiropractic services. To accomplish our objective, we reviewed:

- Ochsner's ACRP submission and compared it with Ochsner's marketing materials.

- the 2000 actual costs for prescription drugs and compared those costs with the proposed amount for prescription drugs in the ACRP. We selected two judgmental samples of prescription drug claims for review. One sample of 38 claims was used to verify the Medicare beneficiaries' enrollment in the plan and whether Ochsner had correctly counted the prescription drug costs against the beneficiaries' annual prescription drug limits. We also: (1) traced the claims to source invoice documents, (2) determined the actual prices Ochsner paid for the prescription drugs, and (3) compared these prices with average wholesale prices published in the *Red Book*, a prescription drug pricing publication used by the pharmaceutical industry. For a second sample of 24 commercial, non-Medicare claims, we compared the non-Medicare prescription drug prices to the prices paid for the same prescription drugs purchased on behalf of Medicare enrollees.

- six pharmacy contracts to determine the pricing agreements between Ochsner and the pharmacies for brand name and generic prescription drugs.

- Ochsner's prescription drug formulary guide[1] of preferred generic and brand name medications.

We did not audit Ochsner's ACRP or its financial statements covering the ACRP base year. These financial statements were audited by independent certified public accountants. We did not conduct a review of the plan's internal controls, because it was not considered necessary to achieve our objectives. Our review was conducted in accordance with generally accepted government auditing standards. Fieldwork was performed at Ochsner in Metairie, Louisiana, and at the Dallas field office in Dallas, Texas.

RESULTS OF REVIEW

Ochsner's additional benefits, submitted with its CY 2000 ACRP, included outpatient prescription drugs; routine physical examinations; vision, chiropractic, and hearing services; and health/wellness programs. Our review disclosed the following:

- Ochsner provided the additional benefits proposed in its CY 2000 ACRP. However, Ochsner distributed the incorrect prescription drug formulary guide to its Medicare enrollees, resulting in overpayment of prescription drug copayments by 104 enrollees totaling $4,281. Ochsner officials told us they are refunding these overpayments.

[1] The prescription drug formulary guide is the list of generic and brand name prescription drugs that are approved and covered by Ochsner's plan. Ochsner enrollees can obtain non-formulary prescription drugs, but a higher copayment is required.

- We were unable to compare the projected CY 2000 ACRP costs with actual 2000 costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education because Ochsner's accounting system did not separately identify those costs in a manner that would enable us to audit the costs and make a comparison.

- During 2000, Ochsner's plan, overall, expended about 7 percent more per member, per month (PMPM) than the estimated prescription drug benefit projected in the CY 2000 ACRP. However, Ochsner's share of the total cost was about 15 percent less PMPM than projected, a difference estimated at $2.8 million. Conversely, Medicare beneficiaries paid about 49 percent more PMPM than projected for their copayments, estimated at $4.9 million.

- Prescription drugs purchased during 2000 were properly valued, and the prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's non-Medicare enrollees, as well as by the pharmaceutical industry as a whole. Ochsner's Medicare enrollees received value in excess of the copayments they paid.

Verification of Proposed Additional Benefits Compared to Actual Additional Benefits Offered to Medicare Enrollees

Ochsner's CY 2000 additional benefits included outpatient prescription drugs; routine physical examinations; vision, chiropractic and hearing services; and health/wellness education. Ochsner's Benefit Information Form, submitted with its ACRP, showed all of the additional benefits at the levels and copayments as advertised in its marketing materials, with the exception of some prescription drug copayments.

Ochsner Provided Inaccurate Marketing Information for Prescription Drugs

We noted discrepancies between copayments shown in Ochsner's prescription drug formulary guide and information provided by Ochsner officials during interviews. The formulary guide should have informed the members that non-formulary (non-preferred) brand name prescription drugs required a higher co-payment. Specifically, the member would be required to pay the difference between the brand name prescription drug price and the cost of the drug's generic equivalent, in addition to the generic prescription drug's copayment. Instead, the formulary guide, which was actually distributed to members, listed some non-formulary brand name prescription drugs as regular brand name drugs, with the same copayment as regular brand name prescription drugs.

After we completed our audit fieldwork, we reported this finding to Ochsner officials during our exit conference. Ochsner later informed us that it mistakenly distributed the 1999 formulary guide to its members during 2000. The mistake occurred because Ochsner was in the process of revising the formulary guide.

Ochsner officials stated that, while the members received incorrect information about the copayments for non-formulary brand name prescription drugs, the plan doctors and participating pharmacies received the correct co-payment information. Ochsner officials also acknowledged that the Medicare enrollees should have paid copayments during 2000 in accordance with the formulary guide they received, even though it was incorrect. In fact, an Ochsner official told us that they had conducted an internal review of their pharmacy claims for 2000 to quantify the amount of copayments that were overpaid by Medicare enrollees. In a letter to us, which was also provided to CMS, Ochsner stated that it was providing refunds to 104 Medicare enrollees who paid higher copayments for non-formulary brand name prescription drugs totaling about $4,281 during 2000.

Estimated Versus Actual Costs for Additional Benefits

Our comparison of Ochsner's CY 2000 ACRP projections with actual 2000 costs showed two areas of concern, as outlined below.

Ochsner's Accounting System Unable to Show Breakdown of Certain Costs

We were unable to compare the CY 2000 ACRP projections versus actual 2000 costs for routine physical examinations; hearing, vision, and chiropractic services; and health/wellness examinations. We found that Ochsner's accounting system did not accumulate and separately identify the costs for these additional benefit categories. The CMS allowed Ochsner to accumulate the base year costs for all of these additional benefits into one amount and include them under a single category on the CY 2000 ACRP called "Other." However, according to CMS' instructions for completing the ACRPs, an M+CO's accounting system must be able to produce cost figures consistent with the ACR format in a manner that can be audited.

We did review a small judgmental sample of claims for hearing, vision, and chiropractic and found that the claims were supported and that the beneficiaries had received the benefits with charges for copayments and annual dollar limits as advertised. Because we found no discrepancies, we had no reason to believe that additional review was required in this area.

Medicare Enrollees Paid Significantly Higher Copayments for Prescription Drugs than Ochsner's ACRP had Projected

Our review of Ochsner's prescription drug costs showed that, during 2000, total expenditures for prescription drugs, including both Ochsner's expenditures and the Medicare enrollees' expenditures for copayments, were about 7 percent more PMPM than the total estimated prescription drug benefit projected in the CY 2000 ACRP. However, Ochsner's share of the total cost was about 15 percent less PMPM than projected. Conversely, the Medicare enrollees paid copayments that were about 49 percent more PMPM than projected in the CY 2000 ACRP.

Because of the proprietary nature of the ACRP submissions, we are not reporting Ochsner's PMPM amounts for prescription drugs as projected in the ACRP, nor are we reporting the actual expenditures PMPM for prescription drugs during 2000. Instead, we have developed the table shown below to illustrate the differences PMPM between the projected and actual expenditures for prescription drugs. In the table, a base amount of $100 was established as the total prescription drug cost projected in Ochner's CY 2000 ACRP.

	CY 2000 ACRP Projections (PMPM)	**CY 2000 Actual Costs (PMPM)**	**Percentage Change Between Projections and Actual Costs**
Ochsner's Expenditures	$ 66	$ 56	- 15 %
Medicare Enrollees' Copayments	$ 34	$ 51	+ 49 %
Total Prescription Drug Cost	$100	$107	+ 7 %

Ochsner officicials told us that the differences between the ACRP projections and actual costs were attributable to several major factors, including increases in prescription drug prices, lag time between the base period and actual costs (two years), changes in the copayment structure, and reduction in service area, which affected both the size and enrollment mixture of the Medicare-eligible population.

We recognize that the ACRP projections are only estimates, and that the underlying assumptions used in making those projections are sensitive to many factors. However, we noted that the differences between the ACRP projections and actual 2000 costs for prescription drugs, when calculated using Ochsner's 2000 enrollment levels, amounted to a significant sum of money:

- Based on Ochsner's actual expenditures for prescription drugs, which were about 15 percent less than projected, we calculated the difference to be $2.8 million.

- Based on the Medicare enrollees' actual copayments, which were about 49 percent higher than projected, we calculated the difference to be $4.9 million.

Value of Additional Benefits

To determine whether actual costs for additional benefits were properly valued, we focused our review on Ochsner's prescription drug benefit. This benefit included an annual limit per enrollee of $1,400 for brand name and generic prescription drugs combined. Copayments required by Medicare enrollees were $8 for generic drugs and $25 for brand name formulary drugs.

Our analysis, detailed in the following paragraphs, showed that the prescription drugs purchased in 2000 were properly valued and that the Medicare enrollees received value in excess of the copayments they paid. Ochsner provided prescription drugs to the Medicare enrollees at reduced rates by taking advantage of discounts negotiated with independent pharmacies that dispensed the drugs. The prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's non-Medicare enrollees, as well as by the pharmaceutical industry as a whole.

Verification that Ochsner Correctly Charged Prescription Drugs Against Beneficiaries' Annual Prescription Drug Limits

We selected a judgmental sample of 38 claims from a data file of 22,754 prescription drug claims for a one-week period in June 2000. For these 38 claims, we verified the Medicare beneficiaries' enrollment and whether Ochsner correctly counted the prescription drug costs against the beneficiaries' annual prescription drug limits. Our review found no discrepancies.

Comparison of Ochsner's Prescription Drug Prices with Its Pharmacy Contracts, Prescription Drug Prices for Non-Medicare Enrollees, and with Average Wholesale Prices

Ochsner had contracts with independent pharmacies that dispensed prescription drugs to Ochsner's enrollees in accordance with prescriptions written by Ochsner's medical providers. We reviewed Ochsner's contracts with six pharmacies (five retail pharmacies and one nationwide mail order pharmacy) to determine the pricing agreements between Ochsner and the pharmacies for brand name and generic prescription drugs. All of the contracts included agreements that allowed Ochsner to purchase prescription drugs at discounted prices.[2]

To test these contract pricing agreements, we used the sample of 38 claims discussed earlier. We traced the claims to source invoice documents. We then compared the prices Ochsner paid for the prescription drugs with the average wholesale prices for the same prescription drugs listed in the 2000 edition of the *Red Book*, taking into consideration the discounts listed in the pharmacy contracts. Our review showed that Ochsner paid prescription drug prices in accordance with the pricing agreements in the pharmacy contracts and comparable to *Red Book* prices.

We selected another sample of 24 claims from a data file of 10,463 non-Medicare prescription drug claims for a two-day period in June 2000. For these 24 claims, we compared some of the non-Medicare prescription drug prices with the prices paid for the same prescription drugs purchased on behalf of Medicare enrollees. Our review showed that Ochsner paid comparable prescription drug prices for both non-Medicare and Medicare enrollees.

CONCLUSION AND RECOMMENDATIONS

Ochsner's additional benefits, submitted with its CY 2000 ACRP, included outpatient prescription drugs; routine physical examinations; vision, chiropractic, and hearing services; and health/wellness education. Our review showed the following:

[2] It is common practice in the pharmaceutical industry to quote prescription drug prices as a factor of average wholesale price (AWP); for example, AWP minus 18 percent. The AWP can be defined as an average of the prices charged by national prescription drug wholesalers for a given prescription drug. The prices are based on surveys of manufacturers, distributors, and other suppliers and are published in sources such as the *Red Book*, a prescription drug pricing publication used by the pharmaceutical industry. Actual prices paid by retailers may vary.

- Ochsner provided the additional benefits proposed in its CY 2000 ACRP. However, Ochsner distributed the incorrect prescription drug formulary guide to its Medicare enrollees, resulting in overpayment of prescription drug copayments by 104 enrollees totaling $4,281. Ochsner officials told us and CMS that they are refunding these overpayments.

- We were unable to compare Ochsner's projected costs in its CY 2000 ACRP with actual 2000 costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education because Ochsner's accounting system did not separately identify those costs in a manner that would enable us to audit the costs and make a comparison.

- Ochsner's share of the total prescription drug expenditures was less than projected by about 15 percent, a difference estimated at $2.8 million. Conversely, Medicare beneficiaries paid about 49 percent more than projected for their copayments, estimated at $4.9 million.

- Prescription drugs purchased during 2000 were properly valued, and the prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's non-Medicare enrollees, as well as by the pharmaceutical industry as a whole. Ochsner's Medicare enrollees received value in excess of the copayments they paid.

We recommended that Ochsner:

- Ensure that all marketing materials provided to Medicare beneficiaries accurately reflect the benefits available.

- Maintain an accounting system that accumulates costs consistent with the individual benefit categories included in the ACRP format to enable those costs to be audited and compared with the ACRP projections.

Ochsner's Comments and OIG's Response

Ochsner's comments on our draft report are summarized below. We also incorporated our responses. The full text of Ochsner's comments can be found in the Appendix to this report.

Verification of Proposed Additional Benefits Compared to Actual Additional Benefits Offered to Medicare Enrollees

Ochsner agreed with our conclusion that additional benefits were provided to Ochsner's Medicare members as proposed in the CY 2000 ACRP. Ochsner also agreed with our finding that the incorrect drug formulary was distributed to the plan's Medicare members. However, Ochsner stated that the overpayments resulting from distribution of the incorrect drug formulary

had not been refunded, because CMS instructed the company to withhold the refunds pending issuance of our audit report. Ochsner stated that the refunds are now being issued. The OIG has no response.

Ochsner's Accounting System Unable to Show Breakdown of Certain Costs

Ochsner explained in detail how its accounting systems accumulate costs from its claims systems into the general ledger system and stated that it provided the OIG with actual 2000 costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education. Ochsner stated that system interfaces between its claims systems and its general ledger system are unable to distinguish vision, chiropractic and hearing claims as additional benefits because of the complexities involved in the identifying criteria. Ochsner further stated that during 2000, the company had a capitation contract with a major physician provider who covered some additional benefits services. The costs for these services were not recorded individually in the general ledger because they were aggregated under a capitation arrangement. Ochsner also stated that ACR instructions allow M+COs to group the individual health care components on the ACR if the M+CO's accounting system will not break out those health care components at the same level of detail. Ochsner obtained CMS' concurrence to submit its ACR with all additional benefits grouped together, except prescription drugs. Finally, Ochsner stated that its accounting systems are more than adequate to allow for medical costs to be audited and compared with the ACRP projections.

The OIG's response is confined strictly to the conclusion we made and reported in our draft report. Specifically, Ochsner's accounting system did not separately identify actual costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education in a manner that would enable us to audit those costs and compare them with the ACRP projections. The ACRP for CY 2000 showed that base year additional benefits, excluding prescription drugs, totaled $3.7 million. While this amount represented only 14 percent of the total additional benefits, it is still a significant amount. As stated previously, CMS' instructions for completing the ACRPs require that an M+CO's accounting system must be able to produce cost figures consistent with the ACRP format in a manner that can be audited. While Ochsner did obtain CMS' permission to group certain health care components on its CY 2000 that approval was granted for only 1 year, as stated in CMS' concurrence letter:

> *". . . this approval is only for the 2000 ACR submission. It is HCFA's* **[name later changed to CMS]** *expectation that organizations may wish to assess their accounting systems to determine whether changes need to be implemented. This may be especially important in light of the statutory requirement that HCFA conduct audits of selected health care organization* [sic]. *As part of these audits HCFA will be assessing accounting systems and the organization's ability to capture and report medical costs."*

Ochsner should revise its accounting systems to comply with CMS' ACRP instructions to produce cost figures that can be audited and compared with the ACRP projections.

Medicare Enrollees Paid Significantly Higher Copayments for Prescription Drugs Than Ochsner's ACRP Projected

Ochsner acknowledged that its total prescription drug expenditures during 2000 were less than projected and that its Medicare enrollees paid higher copayments than projected. In its response, Ochsner gave detailed explanations of the factors affecting the prescription drug projections and actual costs, most of which we mentioned in our report. Of those explanations, we are responding to specific Ochsner statements, as shown below:

- Ochsner stated that the OIG report "*indicates that actual total prescription drug costs increased by 7%."* Actually, our report indicates that total prescription drug expenditures PMPM were 7 percent *more than projected* in Ochsner's ACRP.

- Ochsner stated that, "*Actual prescription drug utilization was approximately 47% higher than assumed, which implies the average cost per script was actually 28% lower than anticipated."* During our audit, we translated the 2000 actual costs for prescription drugs into a cost per member, per month to enable an equitable and appropriate comparison with the ACRP projected cost. The OIG does not dispute the fact that total prescription drug costs increased. We believe, however, that this fact is irrelevant to our findings that Ochsner's out-of-pocket costs for prescription drugs PMPM decreased in comparison to the ACRP projection, while the Medicare enrollees' out-of-pocket costs PMPM increased in comparison to the ACRP projection.

The OIG did not make any recommendations regarding this conclusion.

Value of Additional Benefits

Ochsner agreed with our conclusions regarding the value of Ochsner's prescription drug benefit, specifically that: (1) prescription drugs purchased during 2000 were properly valued, (2) the

prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's non-Medicare enrollees, as well as by the pharmaceutical industry as a whole, and (3) the Medicare enrollees received value in excess of the copayments they paid. The OIG has no response.

Sincerely,

Gordon L. Sato

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure

OCHSNER HEALTH PLAN OF LOUISIANA

July 8, 2002

Cheryl Blackmon
Audit Manager
DHHS Office of Inspector General
Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

RE: Common Identification Number: A-06-01-00048

Ms. Blackmon:

Ochsner Health Plan of Louisiana ("OHP") received from Mr. Gordon L. Sato, Regional Inspector General for Audit Services, a cover letter and two copies of the draft report titled "Review for Additional Benefits Offered By Ochsner Health Plan of Louisiana in the Contract Year 2000 Adjusted Community Rate Proposal."

The letter from Mr. Sato asks that OHP provide written comments regarding OHP's views on the, "… validity of the facts and reasonableness of the recommendations presented…" The remainder of this letter will present OHP's comments which will focus on the section titled *Conclusion and Recommendations.*

OIG CONCLUSIONS (pgs. 8 & 9)

Conclusion 1 - *Ochsner provided the additional benefits proposed in its CY 2000 ACRP. However, Ochsner distributed the incorrect prescription drug formulary guide to its Medicare enrollees, resulting in overpayment of prescription drug copayments by 104 enrollees totaling $4,281. Ochsner officials told us and CMS that they have refunded these overpayments.*

OHP Response – OHP agrees with the OIG that the additional benefits proposed in its CY 2000 ACRP were provided to Total Health 65 members. We also agree that the incorrect drug formulary was distributed. We have not refunded any overpayments (although we are prepared to do so) because we were instructed by Mr. Darin Wipperman of the Central Office of the Centers for Medicare and Medicaid Services (CMS) to not take any action until we had received the above mentioned draft report from your office. OHP will begin the process of reimbursing these members as of the mailing of this letter.

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Conclusion 2 – *We were unable to compare Ochsner's projected costs in its CY 2000 ACRP with actual 2000 costs for routine physical examinations; vision, chiropractic and hearing services; and health/wellness education because Ochsner's accounting system did not separately identify those costs in a manner that would enable us to audit the costs and make a comparison.*

OHP Response - OHP's accounting systems include a general ledger system, a claims payable system and a claims data warehouse. The claims payable system and the data warehouse maintain detail claims payments that are interfaced and recorded in the general ledger system at a summary level. The general ledger summary level is reported by physician, hospital, and pharmacy. Capitation expenses are reported by product line and risk taker. The claims payable system and the data warehouse are subsidiary systems that provide the supporting claims detail for general ledger summary reporting. Reconciliations and controls are in place to ensure subsidiary systems balance to general ledger recordings.

OHP Health Plan provided the OIG with actual 2000 costs for routine physical exams; vision, chiropractic and hearing services; and health/wellness education. This data was provided at a detail claim level and summarized for comparison purposes. The source for this data was the subsidiary systems, i.e. the claims payable system and the claims data warehouse.

The criteria to identify claims for vision, chiropractic and hearing services as additional benefits are complex and require combinations of CPT/HCPCS coding, diagnosis coding and counters. System interfaces for general ledger reporting are generally not flexible enough to handle the variety of criteria needed.

Additionally, the ACR instructions state that HMOs may group data for health components as reported on Worksheet B of the ACR. The items are to be grouped if the HMO's accounting system will not break out the data at the same level of detail as items in Worksheet B. CMS, formerly HCFA, required that HMOs obtain concurrence on the category groupings, and OHP has complied with this each year.

In year 2000, OHP maintained a capitation contract with a major physician provider who covered services such as routine physical exams, vision, chiropractic and hearing services. OHP receives encounter data for these services, but no actual payment was made since the service was covered under a percent of premium capitation contract for all physician services provided. Therefore, the general ledger interface would not record a value for these individual services by type of service. The value of the individual capitated service is only maintained in the subsidiary systems as the fee-for-service equivalent value as if the service would not have been covered under a capitation agreement.

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While OHP, and other HMOs, attempt to report data for the ACR in a format as consistent with the ACR as possible, contractual provisions with providers and the sharing of risk with providers does not always make this feasible. CMS understands the complexity of these issues when reporting health care data, and thus allowed the groupings.

In summary, OHP feels that we did provide support for the actual 2000 costs for routine physical exams, vision, chiropractic and hearing services; and that our accounting systems are more than adequate to allow for medical costs to be audited and compared with the ACRP projections.

Conclusion 3 – *Ochsner's share of the total prescription drug expenditures was less than projected by about 15 percent, a difference estimated at $2.8 million. Conversely, Medicare beneficiaries paid about 49 percent more than projected for their copayments, estimated at $4.9 million.*

OHP Response -- There are many factors that made pharmacy utilization projections difficult for the Year 2000 ACRP. These factors are as follows:

- Trends: Prescription drug trends increased rapidly, especially in the late 1990s, due to changes in FDA policy, direct-to-consumer marketing, advancements in technology, and numerous other reasons.

- Projection period: The length of time between the base period (1998) and contract period (2000) was two years. The projected values for the contract period are very sensitive to the underlying trend assumptions due to the relatively long time between periods.

- Benefit change: OHP changed the prescription drug benefit between the base period (1998) and the contract period (2000). The plan changed from a $10 copay to $8 generic/$25 brand name copay with a $1,400 calendar year maximum.

  The change in benefit design affects utilization patterns, making projections more difficult. We expected a shift in utilization from brand name drugs to generic drugs due to the higher copay for brand name drugs; however, it was difficult to estimate the actual impact on utilization. Any deviation from the total utilization assumption used in the ACR development would affect our estimate of PMPM cost for OHP and the member's PMPM cost sharing.

- Demographics: The enrollment mix changed between the base period and contract period. The age/gender and aged/disabled mix of business would affect the overall utilization levels.

  The benefit design offered each year, as well as competitor's benefit designs, have a significant impact on the age, gender, Medicare status, and health status of the members who enroll and maintain enrollment each year.

- Service area: OHP reduced the service area with the elimination of certain parishes in 2000. The base period claims were based on a different mix of parishes, making it more difficult to accurately project to the contract period.

- Actual-to-expected comparison: The OIG report indicates that actual total prescription drug costs increased by 7% (See page 6). Actual prescription drug utilization was approximately 47% higher than assumed, which implies the average cost per script was actually 28% lower than anticipated. Essentially, OHP assumed that the higher copayment would have a greater dampening effect on member utilization.

In summary, each of the items addressed above contributed to the difference between the actual and expected values. OHP believes the overall impact of these assumptions resulted in higher than expected utilization levels. If OHP would have assumed this higher level of utilization (i.e., predicted the future) the projected results would have been much closer to actual.

Conclusion 4 – *Prescription drugs purchased during 2000 were properly valued, and the prices paid by the Medicare enrollees were comparable to prices paid by Ochsner's non-Medicare enrollees, as well as by the pharmaceutical industry as a whole. Ochsner's Medicare enrollees received value in excess of the copayments they paid.*

OHP's Response - OHP agrees with the OIG's comments.

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OIG Recommendations (pg. 9)

Recommendation 1 - Ensure that all marketing materials provided to Medicare beneficiaries accurately reflect the benefits available.

OHP's Response – In an effort to prevent the error that occurred with the prescription drug guide in 2000, OHP's Pharmacy Services Department has taken the following steps.

1. Rewording the TH65 Rx Directory (Formulary) in order to explain the prio authorization process, and provide a description of the appeal procedure.
2. Reformatting the drug listing to provide members with the same information that TH65 physicians have in their drug formulary.
3. Taking sole responsibility for the drug listing published in future TH65 Prescription Drug Guides and conducting monthly updates.
4. Performing quarterly audits of the TH65 Prescription Drug Guide to verify that the information is correct, current, and administered properly.

Recommendation 2 - Maintain an accounting system that accumulates costs consistent with the individual benefit categories included in the ACRP format to enable those costs to be audited and compared with the ACRP projections.

OHP's Response – As stated in our response to Conclusion 2 above, OHP management believes the company maintains an accounting system that allows costs to be accounted for appropriately. We believe we have met CMS's requirements as related to ACRP submissions.

Should you have any questions regarding the above OHP responses, please feel free to call me at (504) 836-6615.

Sincerely,

George Renaudin, II
Senior Vice President, Administration