



Office of Audit Services  
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February 11, 2009

Report Number: A-01-08-00607

Ms. Madeline Coelho  
Director of Human Resources  
Room 643  
1 Government Center  
Fall River, Massachusetts 02722

Dear Ms. Coelho:

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 Costs Reported by the City of Fall River for Plan Years 2006 and 2007." We will forward a copy of this report to the HHS action official noted below.

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

If you have any questions or comments about this report, please direct them to the HHS action official. Please refer to report number A-01-08-00607 in all correspondence.

Sincerely,

A handwritten signature in black ink that reads "Michael J. Armstrong".

Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Enclosure

**HHS Action Official:**

Nanette Foster Reilly, Consortium Administrator  
Consortium for Financial Management and Fee for Service Operations  
Centers for Medicare & Medicaid Services  
601 E. 12<sup>th</sup> Street, Room 235  
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF RETIREE DRUG  
SUBSIDY COSTS REPORTED BY  
THE CITY OF FALL RIVER FOR  
PLAN YEARS 2006 AND 2007**



Daniel R. Levinson  
Inspector General

February 2009  
A-01-08-00607

# *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 (Public Law 108-173) established a Retiree Drug Subsidy 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 covered retiree 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 costs that are incurred within the effective and termination dates of both the retiree's plan (coverage dates) and the subsidy period approved by CMS (subsidy dates).

The City of Fall River, Massachusetts (Fall River) offers prescription drug coverage to its retired employees through a single plan. Fall River received approximately \$400,000 in plan year 2006 subsidy payments and \$800,000 in plan year 2007 interim subsidy payments for costs reported under its prescription drug plan.

### **OBJECTIVE**

Our objective was to determine whether Fall River's reported drug costs under its prescription drug plan were incurred within each qualifying covered retiree's coverage and subsidy dates.

### **SUMMARY OF FINDINGS**

For plan years 2006 and 2007, Fall River had correctly reported drug costs that were incurred under its prescription drug plan within each qualifying covered retiree's coverage and subsidy dates. Accordingly, this report contains no recommendations.

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## INTRODUCTION

### BACKGROUND

#### Retiree Drug Subsidy Program

Section 101 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 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.

#### Retiree Lists and Response Files

Medicare requires that the sponsor of a qualified retiree prescription drug plan submit an RDS program application with a list of qualifying covered retirees to CMS each year.<sup>1</sup> The submitted list should include retiree identification information as well as 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).

To determine whether a submitted retiree is a Part D eligible individual who is not enrolled in a Part D plan, CMS queries the Medicare Beneficiary Database. CMS uses the results of this query 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.

#### Reporting Retiree Drug Costs

Plan sponsors, or their vendors, must accumulate individual retiree drug costs and prepare and submit aggregated cost reports to CMS before requesting subsidy payments.<sup>2</sup> Costs should only be reported if they are incurred within both the retiree's coverage and subsidy dates.

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<sup>1</sup>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.

<sup>2</sup>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 payments within 15 months after the end of its plan year. CMS will make any necessary adjustments to interim payments for the plan year when the reconciliation is completed.

## **City of Fall River**

The City of Fall River, Massachusetts (Fall River), offers prescription drug coverage to its retired employees under a single qualified retiree prescription drug plan. In plan years 2006 and 2007, Fall River used an outside vendor to report prescription drug costs to CMS. Fall River received approximately \$400,000 in plan year 2006 subsidy payments and \$800,000 in plan year 2007 interim subsidy payments.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether Fall River's reported drug costs under its prescription drug plan were incurred within each qualifying covered retiree's coverage and subsidy dates.

### **Scope**

We reviewed Fall River's prescription drug plan year 2006 covered retiree list and plan year 2007 retiree response and notification files, as well as the plan year 2006 reconciliation cost report and the plan year 2007 interim cost report that it submitted to CMS in September 2007.

We limited our review of Fall River's internal controls to those applicable to reporting drug costs for qualifying covered retirees within valid coverage and subsidy periods because our objective did not require an understanding or assessment of all internal controls over the reporting of drug costs.

We performed our audit work from May through September 2008.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable laws, regulations, and Medicare program guidance;
- reviewed the plan year 2006 covered retiree list and the plan year 2007 retiree response and notification files to determine retiree subsidy dates;
- reviewed detailed drug costs supporting the plan year 2006 reconciliation cost report and the plan year 2007 interim cost report to determine when prescriptions were filled; and
- correlated retiree eligibility data to detailed drug cost data to determine whether prescriptions were filled within each qualifying covered retiree's coverage and subsidy dates.



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

### **RESULTS OF REVIEW**

For plan years 2006 and 2007, Fall River had correctly reported drug costs that were incurred under its prescription drug plan within each qualifying covered retiree's coverage and subsidy dates. Accordingly, this report contains no recommendations.