

# How to Survive (and Maybe Even Benefit from) Medicare Advantage and Prescription Drug Bid Reviews and Audits

By Michael Cook



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It is the middle of June, and you are slowly recovering from the long nights and weekends spent in product development and bid preparation for your Medicare Advantage (MA) and Prescription Drug plans. You return to your desk after a leisurely lunch, and there it is: an introductory email from a bid reviewer working for the Office of the Actuary (OACT) at the Centers for Medicare & Medicaid Services (CMS), complete with a dozen or more requests for additional information. All of the stress from the last few months rushes back to you as you dread what the next six weeks will bring.

While few would say that responding to MA bid reviews or audits is an enjoyable experience, it does not need to be entirely negative. It has the potential to be like working through a new exercise program: plenty of moments of pain, but the result, hopefully, will be a better product than you started with.

Since starting work on the introduction of MA in 2006, I have held consultant positions with different firms both preparing bids and reviewing and auditing bids under direction of OACT. I

have been on both sides of bid reviews and audits and have seen many misunderstandings about how the process should work and does work. This article discusses some of the strategies that plan sponsor actuaries and other Medicare team members can take before, during and after reviews and audits to make them as painless as possible while improving the reliability and supportability of bid results and business planning. But first, here is a little background on MA reviews and audits.

## Bid Review and Audit Background

While there are many similarities between MA bid reviews and audits, there are also important differences between the processes. At a high level, bid reviews take a broad view of all bids in the time span of a few weeks, while bid audits document the detailed development of a few bids over several months.

With the different approaches taken in bid reviews and audits, the questions asked and data requested will also vary. For bid auditors, the approach is simple: all parts of the bid development are evaluated. For bid reviewers, the direction is less predictable. Very soon after bid submission, OACT completes a statistical analysis of every Part C and Part D bid on hundreds of bid metrics. Reviewers investigate all metrics falling outside of set ranges and ask plan sponsors about anything not sufficiently addressed in the bid documentation. OACT gives guidance to reviewers to “pull the thread from the sweater until the end is found.” This means that reviewers will ask about any issue contributing to the outlier metrics and any other potential issues identified during the review of that metric.

Along with the similarities and differences in the bid review and audit processes, there are also similarities and differences in their goals.

### Similarities

Both processes seek to ensure that bids:

**FIGURE 1: BID REVIEWS AND BID AUDITS**

	Bid Reviews	Bid Audits
Timing	After bid submission—June to July	After bid acceptance—October to February
Number of bids impacted	All submitted bids are reviewed	Two or three bids from select plan sponsors are audited
Approach	Top-down approach—statistical analysis determines areas of focus	Bottom-up approach—bid development audited from start to finish
Pace of work	Very quick turnaround times	Work more spread out
Potential for bid revisions	Resubmissions may be required for bid acceptance	No, though financial remedies are possible in instances of egregious errors or misrepresentations
Outcome	Bid acceptance	Audit findings and observations that are addressed in subsequent submissions

- Reflect the plan sponsor’s true revenue requirement, including benefit costs, administrative costs and margin
- Are developed with technical accuracy and appropriate data and assumptions
- Are consistent with law, regulations, ASOPs, bid instructions and other CMS guidance.

**Differences**

In general, the goals of bid reviews focus on the development of appropriate calculations and the market environment for the upcoming contract year, while bid audits focus on identifying areas of improvement for future bid development.

**FIGURE 2: GOALS OF BID REVIEWS AND BID AUDITS**

Bid Review Goals	Bid Audit Goals
Consistent competitive landscape for plan sponsors	Education for plan sponsor and actuaries for future bid development
Nondiscriminatory plan designs for beneficiaries	Feedback for OACT on instructions and other guidance
Accurate results for use in development of Part D national average bid amount and other metrics contributing to plan sponsor payments	Identification of areas of improvement for bid review process

**Bid Review and Audit Best Practices**

Now that we have a framework for the structure and goals of bid reviews and audits, let us look at several suggestions about how to make them run as smoothly as possible. Treating preparation for bid reviews and audits as an integral part of the bid development process can help improve the accuracy and repeatability of your bid development, enhance the effectiveness of your organization’s business planning and reduce the time and stress spent responding to reviews.

**Prior to Bid Submission**

*1. Know bid requirements inside and out and follow them.*

Your actuarial team should be very familiar with the bid instructions, CMS online training (both general training and training specific to the upcoming contract year), actuarial technical user group calls and notes (starting each April), the February Advance Notice and April Rate Announcement and other guidance distributed to plan sponsors through the Health Plan Management System (HPMS). Most of this information is available online at <http://www.cms.gov/MedicareAdvtgSpecRateStats/>.

It will likely take a team of people to stay on top of all of the issues changing each year. This will not only improve the quality and compliance of the bids, but it will also improve your organization’s product development and business planning. If certain issues affecting bid development and product design are not identified until the bid desk review, your organization will have lost most of its opportunity to proactively respond to changes in the MA environment.

*2. Document everything.*

It is a CMS and ASOP requirement that documentation is created and available to reviewers, though not all is required to be submitted with the initial bid package. Closely follow documentation requirements from Appendix B of the bid instructions. Make the documentation clear and organized—this will make it easier for both you and the reviewer when issues arise. The documentation should demonstrate that data and assumptions were developed prior to the date of bid submission. The documentation and data should be sufficiently detailed to lead an auditor down the entire path of bid development.

*3. Special notes on non-actuarial aspects of bid development*

Some bid components such as membership projections, administrative costs and margin will often come from outside the actuarial department. These are often noted in a reliance state-

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ment as part of the actuarial certification. While this is appropriate for issuing an actuarial opinion, it does not absolve the plan sponsor from complying with documentation responsibilities or other applicable requirements. Because the actuarial department and a product leader are often in charge of organizing the responses to reviewers, they can avoid problems during the review if the documentation for these bid components is compiled and reviewed prior to bid submission, rather than simply relying on and using the assumptions. Difficulties developing acceptable documentation are most commonly seen with sponsor administrative cost and margin requirements. It is required to compile and submit the acceptable documentation items for administrative costs and margin, as outlined in the bid instructions, as part of the bid documentation package.

#### **During the Review or Audit**

- 1. Respond to reviewers as quickly as possible, while still guaranteeing accuracy.*

Do what you can to keep your schedule flexible during the bid review season. CMS reviewers typically request a 48-hour turnaround time but will often be flexible if timing issues are raised proactively. Having a knowledgeable backup is a requirement to cover for you in situations when you are not available. Coordinate your responses well with any consulting actuaries involved in bid development. Combining responses from plan sponsors and consulting actuaries into a single set of reviewer questions is easier for reviewers to follow and track.

- 2. Be clear and give examples, where appropriate.*

A two-day turnaround time is not useful if the response is not clear and requires follow-up questions from the reviewer. When describing a set of calculations, it can be very helpful to include some or all of the actual numbers and formulas for one of the bids.

- 3. Be proactive in communication during bid audits.*

Follow up with auditors within a week or two after responding to questions if you have not received a response back from them. The fact that you are not hearing from a bid auditor is not necessarily good news. It could be that everything is going well, with no new issues identified, or it could be that the auditor is putting off reviewing your responses. If the latter, it has the possibility of generating a time crunch at the end of the audit process. While it is not strictly the responsibility of the plan sponsor to check in regularly with auditors, it may help keep the process moving forward with limited additional effort on your part.

- 4. Resolve issues with the reviewer quickly.*

If you have concerns about particular materials requested by the reviewer, communicate them to the reviewer. If the reviewer still insists on receiving the materials, contact your CMS point of contact. Do not drag your feet for days or weeks, hoping the reviewer will give up asking for the materials. Rather, it is more likely that OACT will be notified of your plan sponsor's noncooperation. Further, OACT could judge inadequate cooperation as grounds for including you and your plan sponsor in their new initiative on professional conduct that holds plan sponsors and actuaries more accountable for unprofessional actuarial behavior.

- 5. Try to not be frustrated with questions that seem obvious or frivolous to you.*

Many bid reviewers do not work on MA full-time, and none of them work for your plan sponsor. While OACT spends significant amounts of time developing and updating training materials for reviewers, it will never create detailed and complete knowledge as well as living and breathing bid development work over several months. Do your best to avoid "company-speak" in your responses and try to be cognizant of the learning curve the reviewer and OACT will have when looking into the details of a particular issue.

There are many reasons why a reviewer may be asking a certain question, not all of which indicate a lack of knowledge on the reviewer's part. In particular, resolution of every issue must be documented in writing. If it is not addressed in the bid documentation, the reviewer will not "guess" at the answer, no matter how obvious it seems.

*6. Maintain a positive relationship with your reviewer/auditor.*

It is much easier to work through difficult situations with someone you have a pleasant relationship with. Summer reviews, especially, are stressful for all parties involved—plan sponsors, reviewers and CMS. OACT, in particular, has a difficult assignment each summer with a small staff managing a very large process and coordinating bid reviews with the concurrent benefit reviews. Do not be afraid to speak with the reviewer over the phone. It is easier to avoid communicating an unintended negative tone in a phone call than in an email. For complex or technical issues, discussing them first over the phone is also often more effective than limiting responses to writing. In such cases, the reviewer will usually ask for written confirmation of his or her understanding of the discussion in order that all issues will be documented in writing.

*7. Keep thorough records of all communications with the reviewer and CMS and any additional work product generated.*

These items will be useful for responding to future reviews and audits and for planning improvements to the bid development process.

#### **After the Review or Audit**

*1. Compile a list of process improvements required for next bid development.*

This is automatically performed as part of the bid audit report received in mid-spring, but it should be done internally after both reviews and audits.

*2. Debrief with the entire Medicare team.*

Spend time sharing what went well during bid development and the review or audit and what can be improved. It is good for team members not directly involved in the reviews or audits to get an appreciation for the level of detail and quality required to develop MA bids.

*3. Act on what has been learned.*

Take advantage of slower times in the year to improve bid development models and documentation templates based on results of the bid review and audit.

*4. Stay connected.*

CMS announces policies that may affect future bid preparations throughout the year. In addition, OACT has fall and winter user group calls to keep actuaries aware of current developments.

## **Conclusion**

With preparation and patience, you can limit the difficulty of bid reviews and audits. You might even improve the quality of bid development and business planning processes, hopefully, with less pain than that new exercise program. ■