

§ 423.505

42 CFR Ch. IV (10–1–05 Edition)

(i) Inspect or otherwise evaluate the quality, appropriateness, and timeliness of services performed under the Part D plan sponsor's contract;

(ii) Inspect or otherwise evaluate the facilities of the Part D sponsor when there is reasonable evidence of some need for the inspection; and

(iii) Audit and inspect any books, contracts, and records of the Part D plan sponsor that pertain to—

(A) The ability of the organization or its first tier or downstream providers to bear the risk of potential financial losses; or

(B) Services performed or determinations of amounts payable under the contract.

(e) *Severability of contracts.* The contract must provide that, upon CMS' request—

(1) The contract could be amended to exclude any State-licensed entity, or a Part D plan specified by CMS; and

(2) A separate contract for any excluded plan or entity must be deemed to be in place when a request is made.

§ 423.505 Contract provisions.

(a) *General rule.* The contract between the Part D plan sponsor and CMS must contain the provisions specified in paragraph (b) of this section.

(b) *Requirements for contracts.* The Part D plan sponsor agrees to—

(1) All the applicable requirements and conditions set forth in this part and in general instructions.

(2) Accept new enrollments, make enrollments effective, process voluntary disenrollments, and limit involuntary disenrollments, as provided in subpart B of this part.

(3) Comply with the prohibition in § 423.34(a) on discrimination in beneficiary enrollment.

(4) Provide the basic prescription drug coverage as defined under § 423.100 and, to the extent applicable, supplemental benefits as defined in § 423.100. (Fallback entities may offer only standard prescription drug coverage as specified in § 423.855.)

(5) Disclose information to beneficiaries in the manner and the form specified by CMS under § 423.128.

(6) Operate quality assurance, cost and utilization management, medication therapy management, and support

e-prescribing as required under subpart D of this part.

(7) Comply with all requirements in subpart M of this part governing coverage determinations, grievances, and appeals, and formulary exceptions.

(8) Comply with the reporting requirements in § 423.514 and the requirements in § 423.329(b) for submitting drug claims and related information to CMS for its use in risk adjustment calculations.

(9) Provide CMS with the information CMS determines is necessary to carry out payment provisions in subpart G of this part (or for fallback entities, the information necessary to carry out the payment provisions in subpart Q of this part).

(10) Allow CMS to inspect and audit any books and records of a Part D plan sponsor that pertain to the information regarding costs provided to CMS under paragraph (b)(9) of this section, or, if a fallback entity, the information submitted under subpart Q.

(11) Be paid under the contract in accordance with the payment rules in subpart G of this part, or, if a fallback entity, in accordance with the payment rules of subpart Q of this part.

(12) Except for fallback entities, submit a future year's bid, including all required information on premiums, benefits, and cost-sharing, by any applicable due date, as provided in subpart F so that CMS and the Part D plan sponsor may conduct negotiations regarding the terms and conditions of the proposed bid and benefit plan renewal.

(13) Permit CMS to determine that it is not qualified to renew its contract or that its contract may be terminated in accordance with this subpart and subpart N of this part. (Subpart N applies to fallback entities only to the extent a fallback contract is terminated.)

(14) Comply with the confidentiality and enrollee record accuracy specified in § 423.136.

(15) Comply with State law and preemption by Federal law requirements described in subpart I of this part.

(16) Comply with the coordination requirements with SPAPs and plans that provide other prescription drug coverage as described in subpart J of this part.

(17) Provide benefits by means of point of service systems to adjudicate in a drug claims in a timely and efficient manner in compliance with CMS standards, except when necessary to provide access in underserved areas, I/T/U pharmacies (as defined in § 423.100), and long-term care pharmacies (as defined in § 423.100).

(18) To agree to have a standard contract with reasonable and relevant terms and conditions of participation whereby any willing pharmacy may access the standard contract and participate as a network pharmacy.

(c) *Communication with CMS.* The Part D plan sponsor must have the capacity to communicate with CMS electronically in accordance with CMS requirements.

(d) *Maintenance of records.* The Part D plan sponsor agrees to maintain, for 10 years, books, records, documents, and other evidence of accounting procedures and practices that—

(1) Are sufficient to do the following:

(i) Accommodate periodic auditing of the financial records (including data related to Medicare utilization, costs, and computation of the bid of part D plan sponsors).

(ii) Enable CMS to inspect or otherwise evaluate the quality, appropriateness, and timeliness of services performed under the contract and the facilities of the organization.

(iii) Enable CMS to audit and inspect any books and records of the Part D plan sponsor that pertain to the ability of the organization to bear the risk of potential financial losses, or to services performed or determinations of amounts payable under the contract.

(iv) Except for fallback entities, properly reflect all direct and indirect costs claimed to have been incurred and used in the preparation of the Part D plan sponsor's bid and necessary for the calculation of gross covered prescription drug costs, allowable reinsurance costs, and allowable risk corridor costs (as defined in § 423.308).

(v) Except for fallback entities, establish the basis for the components, assumptions, and analysis used by the Part D plan in determining the actuarial valuation of standard, basic alternative, or enhanced alternative coverage offered in accordance with the

CMS guidelines specified in § 423.265(c)(3).

(2) Include records of the following:

(i) Ownership and operation of the Part D sponsor's financial, medical, and other record keeping systems.

(ii) Financial statements for the current contract period and 10 prior periods.

(iii) Federal income tax or informational returns for the current contract period and 10 prior periods.

(iv) Asset acquisition, lease, sale, or other actions.

(v) Agreements, contracts, and subcontracts.

(vi) Franchise, marketing, and management agreements.

(vii) Matters pertaining to costs of operations.

(viii) Amounts of income received by source and payment.

(ix) Cash flow statements.

(x) Any financial reports filed with other Federal programs or State authorities.

(xi) All prescription drug claims for the current contract period and 10 prior periods.

(xii) All price concessions (including concessions offered by manufacturers) for the current contract period and 10 prior periods accounted for separately from other administrative fees.

(e) *Access to facilities and records.* The Part D plan sponsor agrees to the following:

(1) HHS, the Comptroller General, or their designee may evaluate, through inspection or other means—

(i) The quality, appropriateness, and timeliness of services furnished to Medicare enrollees under the contract;

(ii) The facilities of the Part D plan sponsor; and

(iii) The enrollment and disenrollment records for the current contract period and 10 prior periods.

(2) HHS, the Comptroller General, or their designees may audit, evaluate, or inspect any books, contracts, medical records, patient care documentation, and other records of the Part D plan sponsor, related entity(s), contractor(s), subcontractor(s), or its transferee that pertain to any aspect of services performed, reconciliation of benefit liabilities, and determination of amounts payable under the contract,

or as the Secretary may deem necessary to enforce the contract.

(3) The Part D plan sponsor agrees to make available, for the purposes specified in paragraph (d) of this section, its premises, physical facilities and equipment, records relating to its Medicare enrollees, and any additional relevant information that CMS may require.

(4) HHS, the Comptroller General, or their designee's right to inspect, evaluate, and audit extends through 10 years from the end of the final contract period or completion of audit, whichever is later unless—

(i) CMS determines there is a special need to retain a particular record or group of records for a longer period and notifies the Part D plan sponsor at least 30 days before the normal disposition date;

(ii) There is a termination, dispute, or allegation of fraud or similar fault by the Part D plan sponsor, in which case the retention may be extended to 6 years from the date of any resulting final resolution of the termination, dispute, or fraud or similar fault; or

(iii) CMS determines that there is a reasonable possibility of fraud or similar fault, in which case CMS may inspect, evaluate, and audit the Part D plan sponsor at any time.

(f) *Disclosure of information.* The Part D plan sponsor agrees to submit to CMS—

(1) Certified financial information that must include the following:

(i) Information as CMS may require demonstrating that the organization has a fiscally sound operation.

(ii) Information as CMS may require pertaining to the disclosure of ownership and control of the Part D plan sponsor.

(2) All information to CMS that is necessary for CMS to administer and evaluate the program and to simultaneously establish and facilitate a process for current and prospective beneficiaries to exercise choice in obtaining prescription drug coverage. This information includes, but is not limited to:

(i) The benefits covered under a Part D plan.

(ii) The Part D plan monthly basic beneficiary premium and Part D plan monthly supplemental beneficiary premium, if any, for the plan. Fallback en-

titles submit the monthly beneficiary premium for standard prescription drug coverage.

(iii) The service area of each plan.

(iv) Plan quality and performance indicators for the benefits under the plan including—

(A) Disenrollment rates for Medicare enrollees electing to receive benefits through the plan for the previous 2 years;

(B) Information on Medicare enrollee satisfaction;

(C) The recent records regarding compliance of the plan with requirements of this part, as determined by CMS; and

(D) Other information determined by CMS to be necessary to assist beneficiaries in making an informed choice regarding Part D plans.

(v) Information about beneficiary appeals and their disposition, and formulary exceptions.

(vi) Information regarding all formal actions, reviews, findings, or other similar actions by States, other regulatory bodies, or any other certifying or accrediting organization.

(vii) Information on other matters that CMS may require, including, but not limited to, program monitoring and oversight, performance measures, quality assessment, research and evaluation, CMS outreach activities, payment-related oversight*, and fraud, abuse, and waste*, as specified in CMS guidelines.

(viii) Any other information deemed necessary to CMS for the administration or evaluation of the Medicare program.

(3) To its enrollees, all informational requirements under § 423.128 and, upon an enrollee's request, the financial disclosure information required under § 423.128(c)(4).

(g) *Beneficiary financial protections.* The Part D plan sponsor agrees to comply with the following requirements:

(1) Each Part D plan sponsor must adopt and maintain arrangements satisfactory to CMS to protect its enrollees from incurring liability for payment of any fees that are the legal obligation of the Part D sponsor. To meet this requirement, the Part D plan sponsor must—

(i) Ensure that all contractual or other written arrangements prohibit the sponsor's contracting agents from holding any beneficiary enrollee liable for payment of any such fees; and

(ii) Indemnify the beneficiary enrollee for payment of any fees that are the legal obligation of the Part D plan sponsor for covered prescription drugs furnished by non-contracting pharmacists, or that have not otherwise entered into an agreement with the Part D plan sponsor, to provide services to the organization's beneficiary enrollees.

(2) In meeting the requirements of this paragraph, other than the provider contract requirements specified in paragraph (g)(1)(i) of this section, the Part D plan sponsor may use—

(i) Contractual arrangements;

(ii) Insurance acceptable to CMS;

(iii) Financial reserves acceptable to CMS; or

(iv) Any other arrangement acceptable to CMS.

(h) *Requirements of other laws and regulations.*

The Part D plan sponsor agrees to comply with—

(1) Federal laws and regulations designed to prevent fraud, waste, and abuse, including, but not limited to applicable provisions of Federal criminal law, the False Claims Act (32 U.S.C. §§ 3729 *et seq.*), and the anti-kickback statute (section 1128B(b) of the Act).

(2) HIPAA Administrative Simplification rules at 45 CFR parts 160, 162, and 164.

(i) *Relationship with related entities, contractors, and subcontractors.* (1) Notwithstanding any relationship(s) that the Part D plan sponsor may have with related entities, contractors, or subcontractors, the Part D sponsor maintains ultimate responsibility for adhering to and otherwise fully complying with all terms and conditions of its contract with CMS.

(2) The Part D plan sponsor agrees to require all related entities, contractors, or subcontractors to agree that—

(i) HHS, the Comptroller General, or their designees have the right to inspect, evaluate, and audit any pertinent contracts, books, documents, papers, and records of the related entity(s), contractor(s), or subcontractor(s)

involving transactions related to CMS' contract with the Part D plan sponsor; and

(ii) HHS', the Comptroller General's, or their designee's right to inspect, evaluate, and audit any pertinent information for any particular contract period exists through 10 years from the final date of the contract period or from the date of completion of any audit, whichever is later.

(3) All contracts or written arrangements between Part D plan sponsors and pharmacies or other providers, related entities, contractors, subcontractors, first tier and downstream entities must contain the following:

(i) Enrollee protection provisions that provide, consistent with paragraph (g)(1) of this section, arrangements that prohibit pharmacies or other providers from holding an enrollee liable for payment of any fees that are the obligation of the Part D plan sponsor.

(ii) Accountability provisions that indicate that the Part D sponsor may delegate activities or functions to a pharmacy, related entity, contractor, or subcontractor only in a manner consistent with requirements set forth at paragraph (i)(4) of this section.

(iii) A provision requiring that any services or other activity performed by a related entity, contractor, subcontractor, or first-tier or downstream entity in accordance with a contract or written agreement are consistent and comply with the Part D plan sponsor's contractual obligations.

(4) If any of the Part D plan sponsors' activities or responsibilities under its contract with CMS is delegated to other parties, the following requirements apply to any related entity, contractor, subcontractor, or pharmacy:

(i) Written arrangements must specify delegated activities and reporting responsibilities.

(ii) Written arrangements must either provide for revocation of the delegation activities and reporting responsibilities described in paragraph (i)(4)(i) of this section or specify other remedies in instances when CMS or the Part D plan sponsor determine that the parties have not performed satisfactorily.

(iii) Written arrangements must specify that the Part D plan sponsor on an ongoing basis monitors the performance of the parties.

(iv) All contracts or written arrangements must specify that the related entity, contractor, or subcontractor must comply with all applicable Federal laws, regulations, and CMS instructions.

(5) If the Part D plan sponsor delegates selection of its prescription drug providers to another organization, the Part D sponsor's written arrangements with that organization must state that the CMS-contracting Part D plan sponsor retains the right to approve, suspend, or terminate any such arrangement.

(j) *Additional contract terms.* The Part D plan sponsor agrees to include in the contract other terms and conditions as CMS may find necessary and appropriate in order to implement requirements in this part.

(k) *Certification of data that determine payment.*

(1) *General rule.* As a condition for receiving a monthly payment under subpart G of this part (or for fallback entities, payment under subpart Q of this part), the Part D plan sponsor agrees that its chief executive officer (CEO), chief financial officer (CFO), or an individual delegated the authority to sign on behalf of one of these officers, and who reports directly to the officer, must request payment under the contract on a document that certifies (based on best knowledge, information, and belief) the accuracy, completeness, and truthfulness of all data related to payment. The data may include specified enrollment information, claims data, bid submission data, and other data that CMS specifies.

(2) *Certification of enrollment and payment information.* The CEO, CFO, or an individual delegated the authority to sign on behalf of one of these officers, and who reports directly to the officer, must certify (based on best knowledge, information, and belief) that each enrollee for whom the organization is requesting payment is validly enrolled in a program offered by the organization and the information CMS relies on in determining payment is accurate, complete, and truthful and acknowledge

that this information will be used for the purposes of obtaining Federal reimbursement.

(3) *Certification of claims data.* The CEO, CFO, or an individual delegated with the authority to sign on behalf of one of these officers, and who reports directly to the officer, must certify (based on best knowledge, information, and belief) that the claims data it submits under § 423.329(b)(3) (or for fallback entities, under § 423.871(f)) are accurate, complete, and truthful and acknowledge that the claims data will be used for the purpose of obtaining Federal reimbursement. If the claims data are generated by a related entity, contractor, or subcontractor of a Part D plan sponsor, the entity, contractor, or subcontractor must similarly certify (based on best knowledge, information, and belief) the accuracy, completeness, and truthfulness of the data and acknowledge that the claims data will be used for the purposes of obtaining Federal reimbursement.

(4) *Certification of bid submission information.* The CEO, CFO, or an individual delegated the authority to sign on behalf of one of these officers, and who reports directly to the officer, must certify (based on best knowledge, information, and belief) that the information in its bid submission and assumptions related to projected reinsurance and low income cost sharing subsidies is accurate, complete, and truthful and fully conforms to the requirements in § 423.265.

(5) *Certification of allowable costs for risk corridor and reinsurance information.* The CEO, CFO, or an individual delegated the authority to sign on behalf of one of these officers, and who reports directly to the officer, must certify (based on best knowledge, information, and belief) that the information provided for purposes of supporting allowable costs, as defined in § 423.308, is accurate, complete, and truthful and fully conforms to the requirements in § 423.336 and § 423.343 and acknowledge that this information will be used for the purposes of obtaining Federal reimbursement.

(6) *Certification of Accuracy of Data for Price Comparison.* The CEO, CFO, or an individual delegated the authority to sign on behalf of one of these officers,

and who reports directly to the officer, must certify (based on best knowledge, information, and belief) that the information provided for purposes of price comparison is accurate, complete, and truthful.

§ 423.506 Effective date and term of contract.

(a) *Effective date.* The contract is effective on the date specified in the contract between the Part D plan sponsor and CMS.

(b) *Term of contract.* Each contract is for a period of 12 months.

(c) *Qualification to renew a contract.* In accordance with § 423.507 of this subpart, an entity is determined qualified to renew its contract annually only if—

(1) CMS informs the Part D plan sponsor that it is qualified to renew its contract; and

(2) The Part D plan sponsor has not provided CMS with a notice of intention not to renew.

(d) *Renewal of contract contingent on reaching agreement on the bid.* Although a Part D plan sponsor may be determined qualified to renew its contract under this section, if the sponsor and CMS cannot reach agreement on the bid under subpart F, no renewal takes place, and the failure to reach agreement is not subject to the appeals provisions in subpart N of this part.

(e) The provisions of this section do not apply to fallback entities.

§ 423.507 Nonrenewal of contract.

(a) *Nonrenewal by a Part D plan sponsor.* (1) Except for fallback entities, a Part D plan sponsor may elect not to renew its contract with CMS, effective at the end of the term of the contract for any reason provided it meets the timeframes for doing so set forth in paragraphs (a)(2) and (a)(3) of this section.

(2) If a Part D plan sponsor does not intend to renew its contract, it must notify—

(i) CMS in writing by the first Monday of June in the year in which the contract ends;

(ii) Each Medicare enrollee, at least 90 days before the date on which the nonrenewal is effective. This notice must include a written description of alternatives available for obtaining

qualified prescription drug coverage within the PDP region, including MA-PD plans, and other PDPs, and must receive CMS approval prior to issuance; and

(iii) The general public, at least 90 days before the end of the current calendar year, by publishing a notice in one or more newspapers of general circulation in each community or county located in the Part D plan sponsor's service area.

(3) If a Part D plan sponsor does not renew a contract under this paragraph (a), CMS cannot enter into a contract with the organization for 2 years unless there are special circumstances that warrant special consideration, as determined by CMS.

(4) If a Part D plan sponsor does not renew a contract under this paragraph (a), it must ensure the timely transfer of any data or files.

(b) *CMS decision that a Part D plan sponsor is not qualified to renew.* (1) Except for fallback entities, CMS may determine that a Part D plan sponsor is not qualified to renew its contract for any of the following reasons:

(i) The reasons listed in § 423.509(a) that also permit CMS to terminate the contract.

(ii) The Part D plan sponsor has committed any of the acts in § 423.752 that support the imposition of intermediate sanctions or civil money penalties under § 423.750.

(2) *Notice of decision.* CMS provides notice of its decision of whether a Part D plan sponsor is qualified to renew its contract as follows:

(i) To the Part D plan sponsor by May 1 of the current contract year.

(ii) If CMS decides that a Part D plan sponsor is not qualified to renew its contract, to the Part D plan sponsor's Medicare enrollees by mail at least 90 days before the end of the current calendar year.

(iii) If CMS determines that the Part D plan sponsor is not qualified to renew its contract, to the general public at least 90 days before the end of the current calendar year, by publishing a notice in one or more newspapers of general circulation in each community or county located in the Part D plan sponsor's service area.