U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

Audit of the Federal Employees Health Benefits Program Operations at Group Health Plan

Report No. 1C-MM-00-10-059

Date: June 16, 2011

-- CAUTION --

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Group Health Plan
Contract Number 1930 - Plan Code MM
St. Louis, Missouri

Report No. 1C-MM-00-10-059 **Date:** June 16, 2011

Michael R. Esser
Assistant Inspector General
for Audits

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Group Health Plan
Contract Number 1930 - Plan Code MM
St. Louis, Missouri

Report No. 1C-MM-00-10-059 **Date:** June 16, 2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Plan (Plan). The audit covered contract years 2007 through 2009 and was conducted at the Plan's office in St. Louis, Missouri. Additional field work was performed at our field offices in Jacksonville, Florida, and Cranberry Township, Pennsylvania.

This report questions $189,691 for inappropriate health benefit charges to the FEHBP in contract year 2008. The questioned amount includes $169,699 for defective pricing and $19,992 due the FEHBP for lost investment income, calculated through April 30, 2011. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2007 and 2009.

For contract year 2008, we determined that the FEHBP's rates were overstated by $169,699 because the FEHBP did not receive the largest rate discount given to a Similarly Sized Subscriber Group.

Consistent with the FEHBP regulations and contract, the FEHBP is due $19,992 for lost investment income, calculated through April 30, 2011, on the defective pricing finding. In addition, we recommend that the contracting officer recover lost investment income starting May 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

CONTENTS

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Plan (Plan) in St. Louis, Missouri. The audit covered contract years 2007 through 2009. The audit was conducted pursuant to the provisions of Contract CS 1930; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

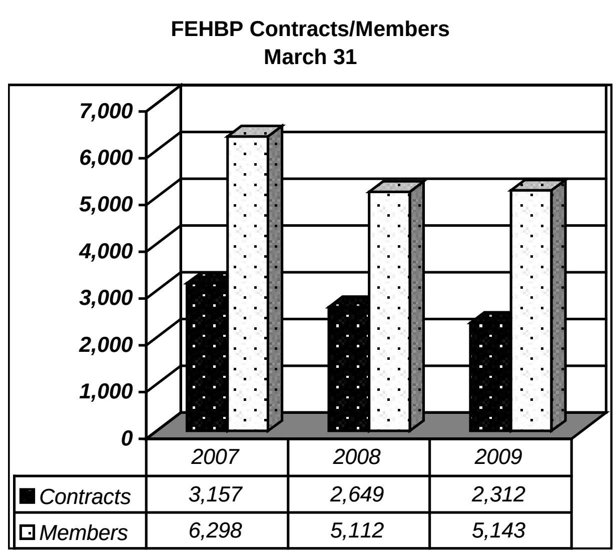
Background

The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office. The provisions of the Federal Employees Health Benefits Act are implemented by OPM through regulations codified in Chapter 1, Part 890 of Title 5, CFR. Health insurance coverage is provided through contracts with health insurance carriers who provide service benefits, indemnity benefits, or comprehensive medical services.

Community-rated carriers participating in the FEHBP are subject to various federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., many community-rated carriers are federally qualified). In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The FEHBP should pay a market price rate, which is defined as the best rate offered to either of the two groups closest in size to the FEHBP. In contracting with community-rated carriers, OPM relies on carrier compliance with appropriate laws and regulations and, consequently, does not negotiate base rates. OPM negotiations relate primarily to the level of coverage and other unique features of the FEHBP.

The chart to the right shows the number of FEHBP contracts and members reported by the Plan as of March 31 for each contract year audited.



The Plan participated in the FEHBP from 1983 through 2009 and provided health benefits to FEHBP members in the St. Louis/Metro East Area, Central Missouri, and Southern and Central Illinois. The last audit conducted by our office was a full scope audit and covered contract years 2002 through 2006. All issues related to that audit have been resolved.

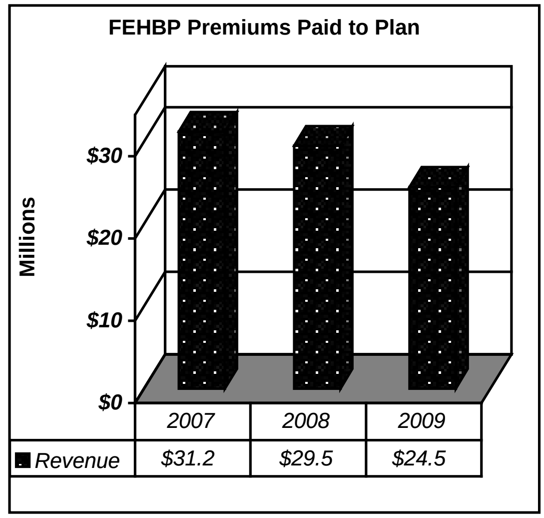
The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in the preparation of this report and are included, as appropriate, as the Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The primary objectives of the audit were to verify that the Plan offered market price rates to the FEHBP and to verify that the loadings to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

Scope



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 findings and conclusions based on our audit objectives.

This performance audit covered contract years 2007 through 2009. For these contract years, the FEHBP paid approximately $85.2 million in premiums to the Plan. The premiums paid for each contract year audited are shown on the chart above.

OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and OPM rate instructions. These audits are also designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts.

We obtained an understanding of the Plan's internal control structure, but we did not use this information to determine the nature, timing, and extent of our audit procedures. However, the audit included such tests of the Plan's rating system and such other auditing procedures considered necessary under the circumstances. Our review of internal controls was limited to the procedures the Plan has in place to ensure that:

- The appropriate similarly sized subscriber groups (SSSG) were selected;
- the rates charged to the FEHBP were the market price rates (i.e., equivalent to the best rate offered to SSSGs); and
- the loadings to the FEHBP rates were reasonable and equitable.

In conducting the audit, we relied to varying degrees on computer-generated billing, enrollment, and claims data provided by the Plan. We did not verify the reliability of the data generated by the various information systems involved. However, nothing came to our attention during our audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the available data was sufficient to achieve our audit objectives. Except as noted above, the audit was performed in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was performed at the Plan's office in St. Louis, Missouri, during August 2010. Additional audit work was completed at our offices in Jacksonville, Florida, and Cranberry Township, Pennsylvania.

Methodology

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete and valid. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), and OPM's Rate Instructions to Community-Rated Carriers to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

To gain an understanding of the internal controls in the Plan's rating system, we reviewed the Plan's rating system's policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

III. AUDIT FINDINGS AND RECOMMENDATIONS

Premium Rates

1. Defective Pricing **$169,699**

The Certificate of Accurate Pricing the Plan signed for contract year 2008 was defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for this year. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium adjustment totaling $169,699 (See Exhibit A). We found that the FEHBP rates were developed in accordance with OPM rules and regulations in contract years 2007 and 2009.

FEHBAR 1652.215-70 provides that carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the proposed subscription rates, subject to adjustments recognized by OPM, are market price rates. OPM regulations refer to a market price rate in conjunction with the rates offered to an SSSG. If it is found that the FEHBP was charged higher than a market price (i.e., the best rate offered to an SSSG), a condition of defective pricing exists, requiring a downward adjustment of the FEHBP premiums to the equivalent market price.

2008

The Plan selected [redacted] as the SSSGs for contract year 2008. We agree with these selections. Our review of the SSSG rates shows that [redacted] was rated differently than [redacted] and the FEHBP. Therefore, we re-rated [redacted] and the FEHBP using the methodology used for [redacted] Our analysis shows that [redacted] received a [redacted] percent discount and [redacted] did not receive a discount. In the 2008 reconciliation, the Plan gave the FEHBP a [redacted] percent discount. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we recalculated the FEHBP rates using the [redacted] percent discount given to [redacted] A comparison of the audited rates to the reconciled rates shows that the FEHBP was overcharged $169,699 in contract year 2008 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan acknowledges that the current premium for [redacted] in 2008 was not calculated accurately in the original rate development provided at the time of the on-site audit. The Plan states that because [redacted] has two rating segments and several different rate structures, the Plan performs some renewal calculations outside the normal rating system. Support for these calculations was provided to re-rate the FEHBP and both SSSGs using the same method. Based on this analysis, the Plan contends that the FEHBP was not overcharged in 2008.

OIG's Reply to The Plan's Comments:

We reviewed the documentation provided by the Plan and recalculated the rates for [redacted] and the FEHBP for contract year 2008 using the most current month to determine the most current premium. Our analysis shows that the Plan provided [redacted] with a discount of [redacted] percent for contract year 2008. [redacted] did not receive a discount. We applied the [redacted] discount to the re-developed FEHBP rates and determined that the Plan owes the FEHPB $169,699.

Recommendation 1

We recommend that the contracting officer require the Plan to return $169,699 to the FEHBP for defective pricing in contract year 2008.

2. Lost Investment Income $19,992

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing finding in contract year 2008. We determined the FEHBP is due $19,992 for lost investment income, calculated through April 30, 2011 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning May 1, 2011, until all defective pricing finding amounts have been returned to the FEHBP.

FEHBAR 1652.215-70 provides that, if any rate established in connection with the FEHBP contract was increased because the carrier furnished cost or pricing data that were not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.

Our calculation of lost investment income is based on the United States Department of Treasury's semiannual cost of capital rates.

Plan's Comments (See Appendix):

The Plan believes the discount presented in the draft report is in error; therefore, no lost investment income is due.

OIG's Response to the Plan's Comments:

The defective pricing finding still exists and the lost investment income amount shown is based on the current amount due the FEHBP.

Recommendation 2

We recommend that the contracting officer require the Plan to return $19,992 to the FEHBP for lost investment income for the period of January 1, 2008 through April 30, 2011. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning May 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted], Auditor-In-Charge

[redacted], Auditor

[redacted], Auditor

[redacted] Chief

[redacted], Senior Team Leader

Exhibit A

Group Health Plan, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:	
Contract Year 2008	$169,699
Lost Investment Income	$19,992
Total Questioned Costs	***$189,691***

Group Health Plan, Inc.
Defective Pricing Questioned Costs

2008 Contract Year

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]	
FEHBP Line 5 - Audited Rate			
Overcharge	[redacted]	[redacted]	
To Annualize Overcharge:			
March 31, 2008 Enrollment	[redacted]	[redacted]	
Pay Periods	26	26	
Subtotal	[redacted]	[redacted]	
Total Questioned Costs			**$169,699**

EXHIBIT C

Group Health Plan, Inc.
Lost Investment Income

Year / **Audit Findings:**	2007	2008	2009	2010	2011	Total
1. Defective Pricing	$0	$169,699	$0	$0	$0	$169,699
Totals (per year):	$0	$169,699	$0	$0	$0	$169,699
Cumulative Totals:	$0	$169,699	$169,699	$169,699	$169,699	
Avg. Interest Rate (per year):	5.5000%	4.9375%	5.25%	3.1875%	2.6250%	
Interest on Prior Years Findings:	$0	$0	$8,909	$5,409	$1,485	$15,803
Current Years Interest:	$0	$4,189	$0	$0	$0	$4,189
Total Cumulative Interest Calculated Through April 30, 2011:	$0	$4,189	$8,909	$5,409	$1,485	**$19,992**

Appendix

GHP
A Coventry Health Care Plan

COVENTRY
Health Care

2011 FEB 24 AM 7:43

February 16, 2011

[redacted]
Chief, Community-Rated Audits Group
United States Office of Personnel Management
Office of the Inspector General
1900 E Street NW, Room 6400
Washington, DC 20415-1100

Re: Draft report of Group Health Plan, Inc. operations under FEHBP 2007-2009

Dear [redacted]

This letter and its attachments respond to your correspondence of January 18, 2011 enclosing the draft report ("Draft Report") detailing the results of the Office of Inspector General's ("OIG") audit of the Federal Employees Health Benefits Plan ("FEHBP") operations at Group Health Plan, Inc. ("GHP" or "the Plan") for contract years 2007 through 2009. Per your request, we are also enclosing a CD with our comments along with this hard copy.

Compliance with the Office of Personnel Management ("OPM") regulations and rating requirements is a core compliance commitment of GHP. The Plan has worked hard to adhere to FEHBP requirements and to maintain solid documentation for its rating practices. We viewed with concern therefore the tentative finding in the Draft Report of rating deficiencies that could result in amounts due to OPM. We do appreciate the opportunity to address these points prior to issuance of final audit recommendations by the OIG.

GHP has carefully reviewed the Draft Report and additional work papers provided by your office. GHP respectfully disagrees with principal findings and conclusions in the Draft Report. We provide comments and information below on the adverse draft audit findings for contract year 2008. We note that no rating deficiencies were found, and no recovery amounts were recommended, for contract years 2007 and 2009. That is the norm to which we aspire.

2008

For contract year 2008, the Draft Report concludes that [redacted] did not receive a discount and that [redacted] did receive a discount that should be applied to FEHBP did receive a discount. There is no question as to the validity of the rating model in use at the time or the consistency in which it was used. The question that has been raised is to the current premium used for [redacted] The report recommends a recovery of $445,734 for the difference between the [redacted] concession given to the FEHBP account and the [redacted] audited concession by OPM. This difference is the result of a difference in the current premium calculation on our renewal and the audited current premium rate.

The Plans customary current rate calculation is to use the last three months of run-out to arrive at the current premium for the renewal calculation. This is how it was done for both [redacted] and FEHBP. However, [redacted] has 2 rating segments and several different rate structures which necessitate The Plan to perform some of the renewal calculations outside of ERNIE. As noted on the draft report the premium for segment 2 wasn't pulling through in ERNIE. The calculation for the 2 rating segments was done outside of ERNIE (see attached). In the attached [redacted] document the current premium was calculated at the time of the renewal. Also, attached is the 2008 Premium Rate Calculation document which uses one month of premium to calculate [redacted] and FEHBP current premium.

The [redacted] premium used in the original renewal calculation was [redacted] The premium for the most recent month available at the time of the renewal was [redacted] This is a difference of [redacted]

The [redacted] premium used in the original renewal calculations was [redacted] The premium for the most recent month of experience available at the time of the renewal was [redacted] This results in a difference of [redacted] or the difference between [redacted] receiving a [redacted] increase instead of a [redacted] increase.

The FEHBP premium used in the original renewal calculation was [redacted] The premium for the most recent month of experience available at the time of the renewal was [redacted] This results in a difference of [redacted] or the difference between FEHBP receiving a formula increase of [redacted] increase instead of [redacted]

The Plan's documentation provided results in less than a [redacted] difference in renewal action. This provides proof that the methodology used in the [redacted] renewal was valid.

Finally, the calculation of the FEHBP renewal rates is based on our rating formula that matches the guidance provided by the OPM in the Call Letter. The needed premium is calculated on a per member per month dollar amount, then a step-up factor is applied to develop the rates. The exact same rating formula is used for the FEHBP and all SSSG's. It is GHP's belief that there is no finding for contract year 2008.

Lost Investment Income

The Draft Report recommends recovery of lost investment income, calculated from the amount of the preliminary defective rating findings. In light of the supporting data provided and explanation of current premium calculation, the Plan believes there is not an overcharge liability and therefore no lost investment income.

The Conclusion

The Plan has fully addressed the tentative adverse findings in the Draft Audit Report. Full review of the submitted information should satisfactorily resolve all outstanding matters.

The Plan appreciates the opportunity to address these outstanding issues and would be willing to discuss any additional questions you might have after review of this response. We are hopeful this information is sufficient to resolve this matter.

Sincerely,

[redacted]

VP of Underwriting

Attachments