



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

**AUDIT REPORT**

Federal Employees Health Benefits Program  
Experience-Rated Health Maintenance Organization

Altius Health Plans  
Contract CS 2839      Plan Codes 9K/DK  
South Jordan, Utah

REPORT NO. 1D-9K-00-09-026

DATE: June 28, 2010

A handwritten signature in black ink, appearing to read "M. Esser".

Michael R. Esser  
Assistant Inspector General  
for Audits



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
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## EXECUTIVE SUMMARY

Federal Employees Health Benefits Program  
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This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Altius Health Plans (Plan), in South Jordan, Utah, questions \$57,831 in health benefit charges, \$88,521 in administrative expenses, and \$99,260 in cash management practices. The Plan agreed (A) with all questioned charges. Lost investment income (LII) on the questioned charges amounts to \$9,313.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered claim payments, miscellaneous health benefit payments and credits, and administrative expenses from 2004 through 2008 as reported in the Annual Accounting Statements.<sup>1</sup> In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2004 through 2008.

Questioned items are summarized as follows:

<sup>1</sup> For claim payments, we only reviewed a sample of debarred providers to determine if any claims were inappropriately paid to these providers from January 1, 2004 through December 31, 2008.

## HEALTH BENEFIT CHARGES

### Claim Payments

- Debarred Provider Payments (A) \$2,991

The Plan made 11 claim payments, totaling \$2,991, to a debarred provider in 2004 and 2005.

### Miscellaneous Payments and Credits

- Health Benefit Refunds, Subrogation Recoveries, and Drug Rebates (A) \$54,840

As of the start date of our review, the Plan had not returned 13 health benefit refunds and 2 subrogation recoveries, totaling \$36,381, to the FEHBP. Also, the Plan did not timely return \$2,519,723 in drug rebates, \$746,176 in health benefit refunds, and \$214,427 in subrogation recoveries to the FEHBP. As a result of this finding, the Plan returned \$54,840 to the FEHBP, consisting of \$36,381 for the funds not returned to the FEHBP and \$18,459 for LII on the funds returned untimely or not returned to the FEHBP.

## ADMINISTRATIVE EXPENSES

- Executive Compensation (A) \$96,404

The Plan overcharged the FEHBP for executive compensation from 2006 through 2008.

- Unallowable Lobbying Expenses (A) \$14,527

The Plan charged unallowable lobbying expenses to the FEHBP from 2006 through 2008.

- Cost of Health Care Allocation Percentage (A) \$(22,410)

The Plan undercharged the FEHBP for administrative expenses in 2007 and 2008.

## CASH MANAGEMENT

- Excess Letter of Credit Drawdowns for Service Charges (A) \$95,823

The Plan withdrew \$84,960 from the letter of credit (LOC) account in excess of the contractual annual service charges. As a result of this finding, the Plan returned \$95,823 to the FEHBP, consisting of \$84,960 for the excess LOC drawdowns and \$10,863 for LII on these funds.

- **Cash Management of Program Funds (A)**

**\$3,437**

The Plan incorrectly adjusted an LOC drawdown error. As a result of this finding, the Plan returned \$3,437 to the FEHBP, consisting of \$3,000 for the drawdown adjustment error and \$437 for LII.

**LOST INVESTMENT INCOME ON AUDIT FINDINGS**

As a result of our audit findings presented in this audit report, the FEHBP is due LII of **\$9,313**, calculated through August 28, 2009. The questioned charges subject to the LII calculation were returned to the FEHBP on August 28, 2009.

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# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Altius Health Plans (Plan). The Plan is located in South Jordan, Utah.

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 (FEHB) 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. OPM's Retirement and Benefits Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.<sup>2</sup> Enrollment is open to all federal employees and annuitants that live or work in the plan's service area, which includes Utah and select counties in Idaho and Wyoming.

The Plan's contract with OPM (CS 2839) is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses which have been carried forward, are reflected in current and future years' premium rates. In addition, these contracts provide that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contracts require an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Plan's management. Also, management of the Plan is responsible for establishing and maintaining a system of internal controls.

This is our first audit of this Plan as an experience-rated HMO. The results of this audit were provided to the Plan in written audit inquiries (findings); were discussed with Plan officials throughout the audit and at an exit conference; and were presented in detail in a draft report,

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<sup>2</sup> Members of an experience-rated HMO have the option of using a designated network of providers or using non-network providers. A member's choice in selecting one healthcare provider over another has monetary and medical implications. For example, if a member chooses a non-network provider, the member will pay a substantial portion of the charges and benefits available may be less comprehensive.

dated October 16, 2009. The Plan's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report. Also, additional documentation provided by the Plan on December 22, 2009 was considered in preparing our final report.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

#### **Health Benefit Charges**

- To determine whether the Plan complied with the FEHBP health benefit provisions relative to debarred providers.
- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

#### **Administrative Expenses**

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

#### **Cash Management**

- To determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

### **SCOPE**

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

We reviewed the Plan's Annual Accounting Statements for contract years 2004 through 2008. During this period, the Plan paid approximately \$441 million in health benefit charges and \$26 million in administrative expenses (See Figure 1 and Schedule A). The Plan also paid approximately \$3 million in service charges (See Schedule A).

Specifically, we reviewed a sample of debarred providers in Utah to determine if any claims were inappropriately paid to these providers from January 1, 2004 through December 31, 2008. In



addition, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and pharmacy drug rebates), administrative expenses, and cash management for 2004 through 2008.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

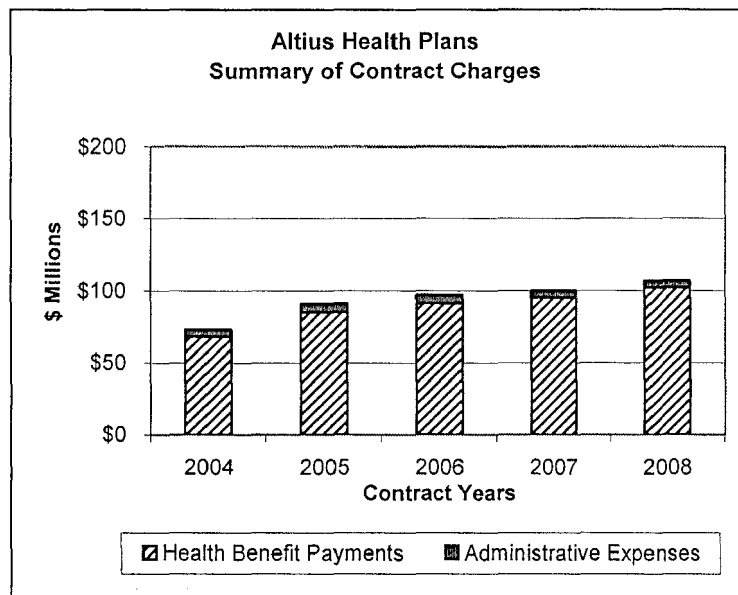


Figure 1 – Contract Charges

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various systems involved. However, while utilizing the computer-generated data during our audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data available was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in South Jordan, Utah from August 3 through August 28, 2009. Audit fieldwork was also performed at our offices in Washington, D.C. and Jacksonville, Florida.

## METHODOLOGY

We obtained an understanding of the internal controls over the Plan's financial, cost accounting, and cash management systems by inquiry of Plan officials.

To test the Plan's compliance with the FEHBP health benefit provisions, we selected and reviewed a judgmental sample of 25 debarred providers in Utah (from a universe of 123 debarred providers) for the purpose of determining if any claims were inappropriately paid to these providers from 2004 through 2008. We used the FEHBP contract and benefit plan brochure to determine the allowability of the benefit payments. The results of this sample were not projected to the universe of debarred providers.

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed 82 health benefit refunds, totaling \$1,399,551 (from a universe of 11,420 refunds, totaling \$3,709,442); 62 subrogation recoveries, totaling \$365,565 (from a universe of 97 recoveries, totaling \$403,613); and all quarterly pharmacy drug rebate receipts, totaling \$4,895,489, from 2004 through 2008 for the purpose of determining if refunds, recoveries, and rebates were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.<sup>3</sup> The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2004 through 2008. Specifically, we reviewed administrative expenses relating to expense accounts, pension, employee health benefits, executive compensation, subcontracts, non-recurring projects, lobbying, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges. The results of the testing were not projected to the universe of administrative expenses.

We reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2839 and applicable laws and regulations. For the period 2004 through 2008, we also selected and reviewed a judgmental sample of 82 letter of credit (LOC) drawdowns, totaling \$40,603,351 (from a universe totaling \$469,204,617), for the purpose of determining if these drawdowns were properly supported.<sup>4</sup> The results of this sample were not projected to the universe of LOC drawdowns.

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<sup>3</sup> See the audit finding for "Health Benefit Refunds, Subrogation Recoveries, and Drug Rebates" (A2.a) on pages 7 through 9 for the specific details of our sample selection methodologies.

<sup>4</sup> For each year, we judgmentally selected one week from each quarter and reviewed the Plan's daily drawdowns during those weeks.

### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. HEALTH BENEFIT CHARGES**

##### **1. Claim Payments**

##### **a. Debarred Provider Payments** **\$2,991**

The Plan made 11 claim payments, totaling \$2,991, to a debarred provider in 2004 and 2005.

Contract CS 2839, Part II, Section 2.7 states that that if a provider has been barred from participating in the FEHBP under Title 5 of the U.S. Code, or the provider's services under the Code are excluded, the carrier agrees to withhold payments to that provider.

For the period 2004 through 2008, we identified 123 providers in Utah that were debarred. From this universe, we selected and reviewed a judgmental sample of 25 debarred providers for the purpose of determining if the Plan inappropriately paid any claims to these providers after the debarment dates. Based on our review, we determined that the Plan made 11 claim payments in 2004 and 2005, totaling \$2,991, to a debarred provider after the debarment date. According to the Plan, the Altius' Special Investigations Unit opened a case on this provider on July 7, 2004 after receiving a debarment notification from the state of Utah. The Plan also received an official debarment date of July 28, 2004 from the OIG's Administrative Sanctions Branch. On December 21, 2004, the Plan mailed debarment notification letters to the applicable FEHBP members and the debarred provider.

##### **Plan's Response:**

The Plan agrees with this finding. The Plan returned the questioned charges of \$2,991 to the FEHBP on August 28, 2009.

##### **Recommendation 1**

We verified that the Plan returned \$2,991 to the FEHBP for the claims that were inappropriately paid to a debarred provider. Therefore, no further action is required for this questioned amount.

## 2. Miscellaneous Payments and Credits

### a. Health Benefit Refunds, Subrogation Recoveries, and Drug Rebates \$54,840

The Plan had not returned 13 health benefit refunds and 2 subrogation recoveries, totaling \$36,381, to the FEHBP as of July 8, 2009.<sup>5</sup> Also, the Plan did not timely return \$2,519,723 in drug rebates, \$746,176 in health benefit refunds, and \$214,427 in subrogation recoveries to the FEHBP. As a result of this finding, the Plan returned \$54,840 to the FEHBP, consisting of \$36,381 for the funds not returned to the FEHBP and \$18,459 for lost investment income (LII) on the funds returned untimely or not returned to the FEHBP.

48 CFR 31.201-5 states, "The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund."

Contract CS 2839, Part II, Section 2.3(i) states, "All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier." Based on insurance industry practice, the Plan has 30 days to return health benefit refunds and recoveries to the FEHBP before LII will commence to be assessed.

48 CFR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

For the period 2004 through 2008, there were 11,420 health benefit refunds totaling \$3,709,442. This universe included 9,709 medical refunds, totaling \$3,070,649; 17 miscellaneous refunds, totaling \$567,456; and 1,694 drug refunds, totaling \$71,337. From this universe, we selected and reviewed a judgmental sample of 82 refunds, totaling \$1,399,551, for the purpose of determining if the Plan promptly returned these refunds to the FEHBP. Our sample included 57 medical refunds, totaling \$828,479 (all refunds of \$10,000 or more and/or the 10 highest dollar refunds from each year); 14 miscellaneous refunds, totaling \$564,093 (all refunds of \$4,000 or more); and 11 drug refunds, totaling \$6,979 (all refunds of \$500 or more).

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<sup>5</sup> We submitted our samples of health benefit refunds and subrogation recoveries to the Plan on July 8, 2009. As of this date, the Plan had not returned these refunds and recoveries to the FEHBP.

Also, there were 97 subrogation recoveries totaling \$403,613. From this universe, we selected and reviewed a judgmental sample of 62 subrogation recoveries, totaling \$365,565, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP.

In addition, there were 23 quarterly pharmacy drug rebates totaling \$4,895,489. We selected for review all of these quarterly rebates and determined if the Plan promptly returned these rebates to the FEHBP.

The following summarizes the exceptions noted from our review of these samples:

- The Plan had not returned 13 health benefit refunds, totaling \$35,487, to the FEHBP as of July 8, 2009. Also, the Plan did not timely return health benefit refunds of \$746,176 to the FEHBP. As a result, we calculated LII of \$11,179 on the refunds returned untimely or not returned to the FEHBP.
- The Plan had not returned portions of two subrogation recoveries, totaling \$894, to the FEHBP as of July 8, 2009. Also, the Plan did not timely return subrogation recoveries of \$214,427 to the FEHBP. As a result, we calculated LII of \$549 on the recoveries returned untimely or not returned to the FEHBP.
- The Plan did not timely return drug rebates of \$2,519,723 to the FEHBP. As a result, we calculated LII of \$6,731 on these rebates returned untimely to the FEHBP.

In total, we are questioning \$54,840, consisting of \$36,381 (\$35,487 + \$894) for health benefit refunds and subrogation recoveries and \$18,459 (\$11,179 + \$549 + \$6,731) for LII on health benefit refunds, subrogation recoveries, and drug rebates returned untimely or not returned to the FEHBP.

**Plan's Response:**

The Plan agrees with this finding. The Plan returned the questioned amount of \$54,840 to the FEHBP on November 23, 2009. The Plan is implementing a process to ensure that refunds are returned to the FEHBP in a timelier manner.

**OIG Comments:**

After reviewing additional documentation provided by the Plan, we revised our questioned amount from the draft report to \$54,840.

### **Recommendation 2**

Since we verified that the Plan returned \$36,381 to the FEHBP for the questioned health benefit refunds and subrogation recoveries, no further action is required for this questioned amount.

### **Recommendation 3**

Since we verified that the Plan returned \$18,459 to the FEHBP for LII on health benefit refunds, subrogation recoveries, and drug rebates returned untimely or not returned to the FEHBP, no further action is required for this questioned amount.

## **B. ADMINISTRATIVE EXPENSES**

### **1. Executive Compensation**

**\$96,404**

The Plan overcharged the FEHBP \$96,404 for executive compensation from 2006 through 2008.

48 CFR 31.205-6(p) limits the allowable compensation costs for senior executives to a benchmark amount established each year by the Office of Federal Procurement Policy. This limit is applicable to the five most highly compensated employees in management positions at each home office and each segment of the Plan, whether or not the home office or segment reports directly to the Plan's headquarters. The benchmark compensation amounts were \$546,689 in 2006, \$597,912 in 2007, and \$612,196 in 2008.

48 CFR 31.205-6(p)(2)(i) states, "Compensation' means the total amount of wages, salary, bonuses, deferred compensation . . . and employer contributions to defined contribution pension plans . . . for the fiscal year, whether paid, earned, or otherwise accruing, as recorded in the contractor's cost accounting records for the fiscal year."

To determine the allowability of the amounts charged to the FEHBP for executive compensation, we reviewed the Plan's allocations for 2004 through 2008 to determine if the executive compensation amounts were limited to the benchmark amounts set forth in 48 CFR 31.205-6(p). We determined that the Plan limited the executive compensation amounts in 2004 and 2005 as required by the regulation. However, for 2006 through 2008, the Plan did not factor in the amount of restricted stock and mid-term compensation when comparing the total compensation for one executive to the benchmark amounts. As a result, the FEHBP was overcharged \$96,404 for executive compensation from 2006 through 2008 (\$3,334, \$85,735 and \$7,335, respectively).

**Plan's Response:**

The Plan agrees with this finding. The Plan returned the executive compensation overcharges of \$96,404 to FEHBP on August 28, 2009.

**Recommendation 4**

Since we verified that the Plan returned \$96,404 to the FEHBP for the executive compensation overcharges, no further action is required for this questioned amount.

**2. Unallowable Lobbying Expenses \$14,527**

The Plan charged unallowable lobbying expenses of \$14,527 to the FEHBP from 2006 to 2008.

48 CFR 31.205-22(a) states, "Costs associated with the following activities are unallowable: . . . (3) Any attempt to influence- (i) The introduction of Federal, state, or local legislation . . . ."

48 CFR 31.205-22(c) states, "When a contractor seeks reimbursement for indirect costs, total lobbying costs shall be separately identified in the indirect cost rate proposal, and thereafter treated as other unallowable activity costs."

During our review of expenses charged to the FEHBP from 2004 through 2008, we found that natural account "654000" (consultant fees) included expenses for lobbying activities performed by a consultant. The Plan allocated \$14,527 of these lobbying expenses to the FEHBP from 2006 through 2008 (\$4,941, \$4,506 and \$5,080, respectively). Based on discussions with the Plan, we determined that these expenses were related to local and state lobbying activities for the Plan's commercial lines of business, which are not chargeable to the FEHBP.

**Plan's Response:**

The Plan agrees with this finding. The Plan returned the questioned lobbying charges of \$14,527 to FEHBP on August 28, 2009.

**Recommendation 5**

Since we verified that the Plan returned \$14,527 to the FEHBP for the unallowable lobbying charges, no further action is required for this questioned amount.

### 3. Cost of Health Care Allocation Percentage

\$(22,410)

The Plan undercharged the FEHBP \$22,410 for administrative expenses from 2007 through 2008.

Contract 2839, Part III, section 3.2 (b) (1) states “The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable.”

48 CFR 31.201-4 states, “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it –

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.”

48 CFR 31.201-1(a) states, “The total cost of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred, less any allocable credits, plus any allocable cost of money pursuant to 31.205-10. In ascertaining what constitutes a cost, any generally accepted method of determining or estimating costs that is equitable and is consistently applied may be used, including standard costs properly adjusted for applicable variances.”

For the period 2004 through 2006, the Plan allocated administrative expenses to the FEHBP based on a “Cost of Health Care Percentage” (COHC %). The Plan calculated the COHC% by dividing the FEHBP’s claims paid by the total corporate claims paid. The Plan calculated the cost of health care (COHC) as follows: claims paid +/- change in IBNR<sup>6</sup> reserve - pharmacy drug rebates. We agree with the Plan’s calculation for 2004 through 2006.

In 2007, the Plan changed the calculation of the COHC as follows: claims paid +/- change in IBNR reserve - pharmacy drug rebates + pharmacy drug rebates. The Plan informed us that Coventry Health Care (Coventry) started performing the pharmacy drug rebate function in 2007. Although Coventry acquired Altius in 2003, Coventry did not centralize the rebate function until 2007. Starting in 2007, all rebates received are processed at the corporate level and only the portion related to the FEHBP is separately transferred and recorded as a credit to FEHBP’s claims paid by Altius.

For 2007 and 2008, we verified that the Plan returned the pharmacy drug rebates to the FEHBP. However, when calculating the COHC, the Plan added the rebates back to the formula, which resulted in negating the credit that the Plan recorded when the rebates

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<sup>6</sup> IBNR are claims incurred but not reported.



were initially received. The Plan stated that the pharmacy drug rebates received from Coventry were added back to FEHBP's COHC in order to be consistent with the health care costs for other lines of business, since Coventry did not break out the rebates for the Plan's other lines of business.

Since the COHC is affected by rebates, we recalculated the FEHBP's COHC and COHC% as follows:

OIG Calculations of COHC and COHC%	2007	2008
FEHBP Claims Paid	\$95,070,489	\$103,986,694
Yearly Change in IBNR Reserve	562,000	(324,000)
Less: Pharmacy Dug Rebates	1,020,919	1,744,751
Total FEHBP COHC (A)	\$94,611,570	\$101,917,943
Total Corporate COHC (B)	\$526,741,561	\$544,335,220
FEHBP COHC% (A/B)	17.96%	18.72%

We applied our calculated COHC% for FEHBP to the total corporate allocable administrative expenses and determined that the FEHBP was undercharged \$20,000 in 2007 and \$2,410 in 2008. The following summarizes our calculations of these undercharges to the FEHBP:

OIG Calculation of Undercharges	2007	2008
Total Corporate Allocable Administrative Expenses (C)	\$25,000,174	\$24,098,749
FEHBP COHC% (per OIG) (D)	17.96%	18.72%
Total FEHBP Allocable Administrative Expenses (per OIG) (C*D)	\$4,490,031	\$4,511,286
Total Amount Charged to the FEHBP	\$4,470,031	\$4,508,876
Difference (Undercharges)	(\$20,000)	(\$2,410)

In total, the Plan undercharged the FEHBP \$22,410 in 2007 and 2008 for administrative expenses.

**Plan's Response:**

The Plan agrees with this finding. The Plan has not taken any action to charge this additional amount to the FEHBP. The Plan is waiting for approval from the contracting officer before taking corrective action.

### **Recommendation 6**

We recommend that the contracting officer allow the Plan to charge the FEHBP \$22,410 for administrative expense undercharges in 2007 and 2008.

## **C. CASH MANAGEMENT**

### **1. Excess Letter of Credit Drawdowns for Service Charges** **\$95,823**

The Plan withdrew \$84,960 from the LOC account in excess of the contractual annual service charges. As a result of this finding, the Plan returned \$95,823 to the FEHBP, consisting of \$84,960 for the excess LOC drawdowns and \$10,863 for LII on these funds.

As previously cited from CS 2839, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable.

Appendix B (Subscription Rates, Charges, Allowances and Limitations) of Contract CS 2839 includes the Plan's annual service charge amount.

48 CFR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

For each year, we performed a reconciliation of the Plan's LOC drawdowns for the annual service charge to the Plan's contractual service charge amount. We found that the Plan withdrew \$32,757 and \$52,962 from the LOC account in excess of the contractual annual service charges for contract years 2005 and 2007, respectively. We also found that the Plan withdrew \$759 less than they should have from the LOC account for the contract year 2004 service charge. In total, we determined that the Plan overdrew \$84,960 (net) from the LOC account for the annual service charges. We also calculated LII of \$10,863 on these excess funds.

#### **Plan's Response:**

The Plan agrees with this finding. The Plan returned the questioned amount of \$95,823 to the FEHBP on August 28, 2009.

### **Recommendation 7**

Since we verified that the Plan returned \$84,960 to the FEHBP for the excess LOC service charge drawdowns, no further action is required for this questioned amount.

## **Recommendation 8**

Since we verified that the Plan returned \$10,863 to the FEHBP for LII on the excess LOC service charge drawdowns, no further action is required for this questioned amount.

### **2. Cash Management of Program Funds \$3,437**

The Plan incorrectly adjusted an LOC drawdown error. As a result of this finding, the Plan returned \$3,437 to the FEHBP, consisting of \$3,000 for the drawdown adjustment error and \$437 for LII.

As previously cited from CS 2839, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable.

Contract CS 2839, Part III, Section 3.4(a) states, "The Carrier shall invest and reinvest all FEHB funds on hand that are in excess of the funds needed to promptly discharge the obligations incurred under this contract. The Carrier shall seek to maximize investment income with prudent consideration to the safety and liquidity of investments." In addition, Section 3.4(e) states, "Investment income lost as a result of failure to credit income due the contract or failure to place excess funds in income producing investments and accounts shall be paid from the date the funds should have been invested . . . ."

48 CFR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

As part of our cash management review, we obtained an understanding of the Plan's policies and procedures relating to FEHBP funds. The Plan did not have a working capital (WC) deposit for the Federal account during the period 2004 through 2009. Although a WC deposit is not a contractual requirement, OPM strongly recommends that each Carrier have a dedicated WC account to manage FEHBP funds. We noted that when claim payment checks were presented to the bank, the Plan covered the check amounts with corporate funds and then withdrew the reimbursement funds from the LOC account and deposited these funds into a dedicated FEHBP zero-balance account. After the reimbursement funds were deposited into the zero-balance account, the Plan transferred these funds on the same day to a corporate account.

For the period 2004 through 2008, we selected and reviewed a judgmental sample of 82 LOC drawdowns, totaling \$40,603,351 (from a universe totaling \$469,204,617), for the purpose of determining if these drawdowns were properly supported. During our review, we identified numerous LOC drawdown errors, such as double, over, and under draws.

The Plan had already identified most of these errors when performing month-end reconciliations. However, we noted that the errors made during the month were not corrected until the 15<sup>th</sup> of the following month. Since the Plan did not have a dedicated WC capital deposit, the Plan also did not have an FEHBP investment account. Therefore, when over-draw errors occurred, the excess FEHBP funds did not earn the required investment income before the corrections were made. For example, we identified two drawdown errors, totaling \$448,529, which the Plan took 43 and 45 days, respectively, to correct. Since the Plan made as many over-draw errors as under-draw errors, we did not calculate LII on the individual errors that were identified in our sample.

Except for one exception, the Plan had already corrected the LOC drawdown errors noted in our review. For this one exception, the Plan had not properly adjusted a drawdown error. Specifically, the Plan inadvertently withdrew \$229,112 twice from the LOC account. However, when correcting this error, the Plan only returned \$226,112 to the LOC account, resulting in a drawdown adjustment error of \$3,000. We also calculated LII of \$437 on this adjustment error.

**Plan's Response:**

The Plan agrees with this finding. The Plan returned the questioned amount of \$3,437 to the FEHBP on August 28, 2009. The Plan states, "Altius has revised its processes to perform a daily reconciliation of the drawdown, from monthly, to minimize drawdown errors and insure a more timely correction of any drawdown errors that do occur. . . . Altius has also added an additional level of management review to further validate LOC draws versus the allowed costs. Finally, Altius is in the process of establishing a working capital deposit to manage FEHBP funds."

**Recommendation 9**

Since we verified that the Plan returned \$3,000 to the FEHBP for the LOC drawdown adjustment error, no further action is required for this questioned amount.

**Recommendation 10**

Since we verified that the Plan returned \$437 to the FEHBP for LII on the LOC drawdown adjustment error, no further action is required for this questioned amount.

**Recommendation 11**

We recommend that the contracting office verify if the Plan has implemented procedures to improve its controls over FEHBP funds and the LOC drawdown process.

**D. LOST INVESTMENT INCOME ON AUDIT FINDINGS**

**\$9,313**

As a result of the audit findings presented in this report, the FEHBP is due LII of \$9,313 from January 1, 2007 through August 28, 2009.<sup>7</sup>

48 CFR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. Our computations show that the FEHBP is due LII of \$9,313 from January 1, 2007 through August 28, 2009 on questioned costs for contract years 2006 and 2008 (see Schedule C).

**Plan's Response:**

The draft audit report did not include an audit finding for LII. Therefore, the Plan did not address this item in its reply.

**Recommendation 12**

We recommend that the contracting officer direct the Plan to credit \$9,313 to the Special Reserve for LII on audit findings

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<sup>7</sup> The audit findings for “Executive Compensation” (B1) and “Unallowable lobbying Expenses” (B2) are subject to the lost investment income calculation. The Plan returned the questioned charges for these findings to the FEHBP on August 28, 2009.

#### IV. MAJOR CONTRIBUTORS TO THIS REPORT

##### Experience-Rated Audits Group

██████████ Auditor-In-Charge

██████████ Team Leader

██████████ Auditor

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██████████ Chief ██████████

██████████ Senior Team Leader

V. SCHEDULES

ALTIUS HEALTH PLANS  
SOUTH JORDAN, UTAH

CONTRACT CHARGES

CONTRACT CHARGES	2004	2005	2006	2007	2008	TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>						
CLAIM PAYMENTS	\$68,938,528	\$85,406,073	\$91,717,546	\$95,070,489	\$103,986,694	\$445,119,330
OTHER ADJUSTMENTS	(663,443)	(840,377)	(830,598)	(489,092)	(1,744,751)	(4,568,261)
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$68,275,085</b>	<b>\$84,565,696</b>	<b>\$90,886,948</b>	<b>\$94,581,397</b>	<b>\$102,241,943</b>	<b>\$440,551,069</b>
<b>B. ADMINISTRATIVE EXPENSES</b>	<b>\$5,450,016</b>	<b>\$5,764,764</b>	<b>\$5,630,419</b>	<b>\$4,829,197</b>	<b>\$4,688,010</b>	<b>\$26,362,406</b>
<b>C. SERVICE CHARGES</b>	<b>\$393,098</b>	<b>\$529,514</b>	<b>\$635,551</b>	<b>\$722,540</b>	<b>\$718,984</b>	<b>\$2,999,687</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$74,118,199</b>	<b>\$90,859,974</b>	<b>\$97,152,918</b>	<b>\$100,133,134</b>	<b>\$107,648,937</b>	<b>\$469,913,162</b>

ALTIUS HEALTH PLANS  
SOUTH JORDAN, UTAH

## QUESTIONED CHARGES

AUDIT FINDINGS	2004	2005	2006	2007	2008	2009	TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>							
1. Claim Payments							
a. Debarred Provider Payments	\$2,931	\$60	\$0	\$0	\$0	\$0	\$2,991
Total Claim Payments	\$2,931	\$60	\$0	\$0	\$0	\$0	\$2,991
2. Miscellaneous Payments and Credits*							
a. Health Benefit Refunds, Subrogation Recoveries, and Drug Rebates	\$16,460	\$3,320	\$24,738	\$6,289	\$2,678	\$1,355	\$54,840
Total Miscellaneous Payments and Credits	\$16,460	\$3,320	\$24,738	\$6,289	\$2,678	\$1,355	\$54,840
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$19,391</b>	<b>\$3,380</b>	<b>\$24,738</b>	<b>\$6,289</b>	<b>\$2,678</b>	<b>\$1,355</b>	<b>\$57,831</b>
<b>B. ADMINISTRATIVE EXPENSES**</b>							
1. Executive Compensation	\$0	\$0	\$3,334	\$85,735	\$7,335	\$0	\$96,404
2. Unallowable Lobbying Expenses	0	0	4,941	4,506	5,080	0	\$14,527
3. Cost of Health Care Allocation Percentage	0	0	0	(20,000)	(2,410)	0	(\$22,410)
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,275</b>	<b>\$70,241</b>	<b>\$10,005</b>	<b>\$0</b>	<b>\$88,521</b>
<b>C. CASH MANAGEMENT*</b>							
1. Excess Letter of Credit Drawdowns for Service Charges	(\$759)	\$32,757	\$1,772	\$54,754	\$4,223	\$3,076	\$95,823
2. Cash Management of Program Funds	0	\$0	3,006	164	148	119	\$3,437
<b>TOTAL CASH MANAGEMENT</b>	<b>(\$759)</b>	<b>\$32,757</b>	<b>\$4,778</b>	<b>\$54,918</b>	<b>\$4,371</b>	<b>\$3,195</b>	<b>\$99,260</b>
<b>D. LOST INVESTMENT INCOME ON AUDIT FINDINGS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$455</b>	<b>\$4,864</b>	<b>\$3,994</b>	<b>\$9,313</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$18,632</b>	<b>\$36,137</b>	<b>\$37,791</b>	<b>\$131,903</b>	<b>\$21,918</b>	<b>\$8,544</b>	<b>\$254,925</b>

\* The audit findings for miscellaneous payments and credits and cash management include lost investment income.

\*\* The administrative expense overcharges are subject to lost investment income.



ALTIUS HEALTH PLANS  
SOUTH JORDAN, UTAH

LOST INVESTMENT INCOME CALCULATION

LOST INVESTMENT INCOME	2004	2005	2006	2007	2008	2009*	TOTAL
<b>A. QUESTIONED CHARGES (Subject to Lost Investment Income)</b>							
Executive Compensation	\$0	\$0	\$3,334	\$85,735	\$7,335	\$0	\$96,404
Unallowable Lobbying Expenses	0	0	4,941	4,506	5,080	0	14,527
<b>ADMINISTRATIVE EXPENSES</b>	<b>\$0</b>	<b>\$0</b>	<b>\$8,275</b>	<b>\$90,241</b>	<b>\$12,415</b>	<b>\$0</b>	<b>\$110,931</b>
<b>B. LOST INVESTMENT INCOME CALCULATION</b>							
a. Prior Years Total Questioned (Principal)	\$0	\$0	\$0	\$8,275	\$90,241	\$12,415	
b. Cumulative Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,275</u>	<u>98,516</u>	
c. Total	\$0	\$0	\$0	\$8,275	\$98,516	\$110,931	
d. Treasury Rate: January 1 - June 30	4.000%	4.250%	5.125%	5.250%	4.750%	5.625%	
e. Interest (d * c)	\$0	\$0	\$0	\$217	\$2,340	\$3,120	\$5,677
f. Treasury Rate: July 1 - December 31	4.500%	4.500%	5.750%	5.750%	5.125%	4.875%	
g. Interest (f * c)	\$0	\$0	\$0	\$238	\$2,524	\$874	\$3,636
<b>Total Interest By Year (e + g)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$455</b>	<b>\$4,864</b>	<b>\$3,994</b>	<b>\$9,313</b>

\* Lost investment income is calculated through August 28, 2009, which is the date when these questioned charges were returned to the letter of credit account.



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November 30, 2009

[REDACTED]  
Auditor-In-Charge  
Experience-Rated Audit Groups  
US Office of Personnel Management  
Office of the Inspector General  
701 San Marco Blvd.  
Jacksonville, FL 32207

Dear [REDACTED]

Thank you for the opportunity to comment on the findings, conclusions, and recommendations outlined in the draft report (Report No. 1D-9K-00-09-026) issued by the Office of Inspector General (OIG) from the limited scope audit your team conducted of the Federal Employees Health Benefits Program (FEHBP) operations at Altius Health Plans (Altius).

We want to express our gratitude again for the very professional manner in which you and your team conducted the audit and the insight and guidance you provided that will help Altius to improve our internal processes and operations of the FEHBP.

We have noted a few corrections on the enclosed draft report, most notably the clarification of the plan's name as Altius Health Plans. In addition for Recommendation 12, Altius' Compliance Officer would prefer that shortcomings identified in Altius' internal controls over the draw down process of FEHBP funds be referred to as "not sufficient" versus "inadequate" if this is acceptable to you.

For each of the OIG's audit findings and recommendations, Altius will respond below with our comments and actions.

**I. Health Benefit Charges**

**a. Debarred Provider Payments**

Altius agreed with this audit finding and the OIG's recommendation to return the \$2,991 in claim overcharges to the FEHBP, which was done by 8/28/09. In addition, Altius has re-reviewed the policy & procedures for debarred providers with the appropriate functions and staff to insure claim payments are stopped in a timely manner and that the debarment notification is sent to the debarred provider and FEHBP members utilizing that provider in a timely manner.

**b. Health Benefit Refunds, Recoveries, and Rebates**

Altius agreed with \$54,840 of this \$99,507 finding and disagreed with \$44,667. Altius is still awaiting a response from the OIG on the additional documentation provided to support the disputed amount. Altius has returned the \$54,840 non-disputed amount per the OIG's recommendations (#2 and #3), which was done by 11/23/09. In addition, Altius is implementing a process to credit the FEHBP for

the average run rate of refunds in the current month since the actual refund amounts for each month are not available to Altius personnel until the monthend accounting and reconciliation process to insure refund credits to the FEHBP are given in a more timely manner.

## II. Administrative Expenses

### a. Executive Compensation

Altius agreed with this audit finding and the OIG's recommendation to return the \$96,404 in executive compensation overcharges to the FEHBP, which was done by 8/28/09. In addition, Altius has worked with the Controller over the corporate overhead allocation model to insure that in the future more detail is provided on executive compensation that is retained at the corporate level (i.e. restricted stock) to insure that excess amounts over the benchmark are disallowed in the allocation model.

### b. Unallowable Lobbying Expenses

Altius agreed with this audit finding and the OIG's recommendation to return \$14,527 in unallowable lobbying expenses to the FEHBP, which was done by 8/28/09. In addition, Altius has implemented an additional review of expenses charged to Altius' purchased services and consultant fee natural accounts to insure that they do not contain any miscoded or unallowable expenses.

### c. Allocation Percentage

Altius agreed with this audit finding in that the inclusion of pharmacy rebates as part of the cost of health care will change the cost of health care allocation percentage. The recalculation resulted in a higher allocation percentage to the FEHBP and an undercharge for administrative expenses of \$22,410. Altius has not taken any action to charge this additional amount to the FEHBP. What is required for Altius to take this credit? Do we wait for approval from the contracting officer and are we required to amend and resubmit the annual accounting statements from this time period?

## **Deleted by the Office of the Inspector General – Not Relevant to the Final Report**

## III. Cash Management

### a. Excess Letter of Credit Drawdowns for Service Charges

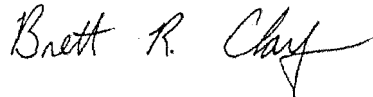
Altius agreed with this audit finding and the OIG's recommendation to disallow \$84,960 for letter of credit drawdowns in excess of its contractual annual service charge and to credit the FEHBP for \$10,863 in lost investment income for the excess drawdown. Altius returned \$95,823 to the FEHBP, which was done by 8/28/09.

### b. Cash Management of FEHBP Funds

Altius agreed with this audit finding and the OIG's recommendation to credit the FEHBP for the \$3,000 LOC drawdown error and \$437 for LII on that error. Altius returned \$3,437 to the FEHBP, which was done by 8/28/09. In addition, the OIG recommended that the plan strengthen its internal controls over FEHBP funds and specifically the drawdown process. Altius has revised its processes to perform a daily reconciliation of the drawdown, from monthly, to minimize drawdown errors and insure a more timely correction of any drawdown errors that do occur. As part of this change in process, Altius had added supplemental schedules for each of the major cost centers to accurately capture expense by distinct category instead of netting together as previously presented. Altius has also added an additional level of management review to further validate LOC draws versus the allowed costs. Finally, Altius is in the process of establishing a working capital deposit to manage FEHBP funds.

In summary, Altius would like to again thank the OIG for the additional insights you offered into the FEHBP and the recommendations that were provided for areas where Altius can improve our operations. This represented the first of audit of the FEHBP for Altius since its inception in 1999 and was a great learning experience for us. While we are disappointed in the shortcomings in Altius operations that were identified in the audit we are pleased that they are all easily correctable and that the total questioned charges from the audit represent only 0.06% of the total contract charges over the audited time period. Please let me know if you have any questions or concerns with the comments or responses provided.

Sincerely,



Brett R. Clay  
Chief Financial Officer  
Altius Health Plans