



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 Cooperative of South Central Wisconsin**

Report No. 1C-WJ-00-10-041

Date: December 14, 2010

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Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

AUDIT REPORT

Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Group Health Cooperative of South Central Wisconsin  
Contract Number CS 1828 - Plan Code WJ  
Madison, Wisconsin

Report No. IC-WJ-00-10-041

Date: 12/14/10

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

Michael R. Esser  
Assistant Inspector General  
for Audits

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## EXECUTIVE SUMMARY

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Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Group Health Cooperative of South Central Wisconsin  
Contract Number CS 1828 - Plan Code WJ  
Madison, Wisconsin

Report No. 1C-WJ-00-10-041

Date: 12/14/10

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Cooperative of South Central Wisconsin (Plan). The audit covered contract years 2004 through 2009 and was conducted at the Plan's office in Madison, Wisconsin. Additional field work was performed at our offices in Jacksonville, Florida, and Washington, D.C. We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and the Office of Personnel Management's rating instructions for the years audited.

However, the Plan could not provide original source documentation to support the age/sex factors and enrollment used to develop the FEHBP and the similarly sized subscriber groups' rates for all years audited. Although we ultimately received sufficient documentation to validate the rates charged, the FEHBP contract requires the Plan to retain and make available all records supporting its rate submission for a period of five years after the end of the contract term to which the records relate.

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## I. INTRODUCTION AND BACKGROUND

### Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Cooperative of South Central Wisconsin (Plan) in Madison, Wisconsin. The audit covered contract years 2004 through 2009. The audit was conducted pursuant to the provisions of Contract CS 1828; 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.

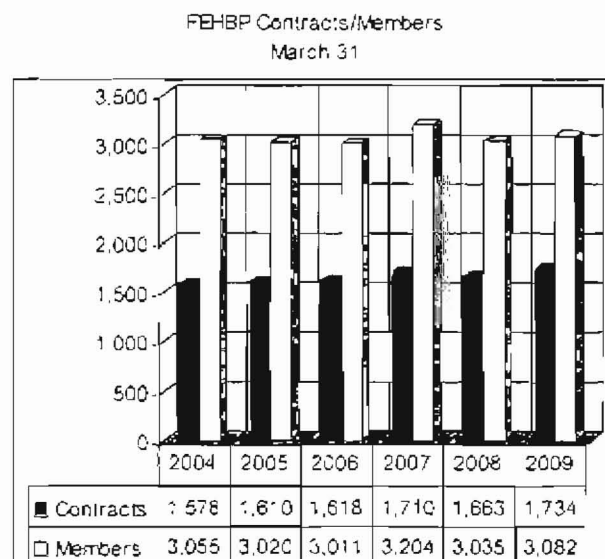
### Background

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 Retirement and Benefits 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 has participated in the FEHBP since 1979 and provides health benefits to FEHBP members throughout South Central Wisconsin. The last audit conducted by our office was a full scope audit and covered contract years 1998 through 2002. 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.

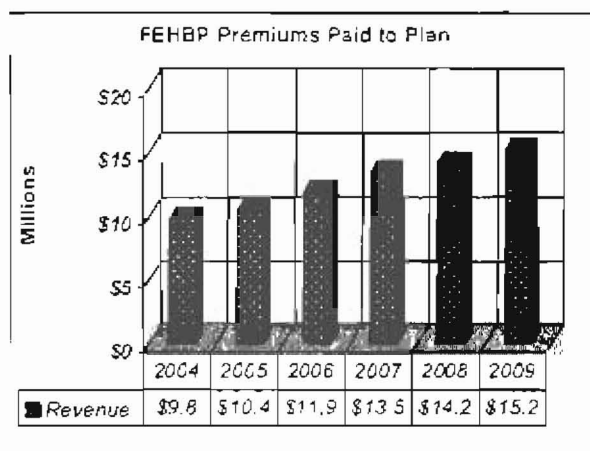
## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### 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 2004 through 2009. For these years, the FEHBP paid approximately \$75 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 the 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 conducted 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 Madison, Wisconsin, during May 2010. Additional audit work was completed at our offices in Washington, D.C., and Jacksonville, Florida.

### Methodology

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. 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, 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 RECOMMENDATION**

#### **Premium Rate Review**

Our audit showed that the Plan's rating of the FEHBP was in accordance with the applicable laws, regulations, and OPM's rating instructions to carriers for contract years 2004 through 2009. Consequently, the audit did not identify any questioned costs.

#### **Records Retention**

The Plan did not provide original source documentation to support the rates charged to the FEHBP and the SSSGs for contract years 2004 through 2009. Without appropriate supporting documentation, it is difficult to determine if the FEHBP rates were established in accordance with the Plan's contract, applicable regulations, and OPM community-rating guidelines. Under these circumstances, we may have to depend on other data, and at times, different rating methodologies to determine the appropriateness of the FEHBP rates. The outcome of our analysis based on the best information available may result in a less desirable outcome to the Plan. Therefore, it is in the best interest of a plan to retain the information needed to verify the FEHBP and the SSSGs rates. Although we ultimately received sufficient documentation to validate the rates charged, the FEHBP contract requires the Plan to retain and make available all records supporting its rate submission for a period of six years after the end of the contract term to which the records relate.

#### **Plan's Comments (See Appendix):**

The Plan agrees that it did not provide original source documentation to support the age/sex factor and enrollment reports for the FEHBP and SSSGs. However, the Plan states that although it did not have paper documentation of the exact employee counts originally used in developing the age/gender factors for the Federal Group and the SSSG groups, it was able to summarize and print, from electronic files that are kept, the information the auditors requested. While these reports did not match exactly with the data that was originally submitted, in every situation there were no significant changes to the rate calculations.

The Plan went on to state that it always endeavored to maintain all information that was required by the FEHBP contract. During the review, the auditors were able to point out areas where the process could be improved. The Plan states that it immediately made those improvements even before receipt of the written report.

Since the auditors found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rating instructions, and since the differences between the original source documentation and the reconstructed documentation for the years in question were not significant, the Plan asks that the contracting officer reconsider assessing a penalty.

### **OIG's Response to the Plan's Comments:**

We agree with the Plan that the reconstructed data did not have a significant impact on the rate calculations. However, the Plan is still required to maintain the original source documentation to support the rates charged to the FEHBP and SSSGs for a period of five years after the end of the contract term to which the records relate. The Plan agrees that it did not meet this requirement and stated that it has made changes to its system to ensure future compliance. We acknowledge the Plan's stated intention to implement corrective action and will determine if the changes have been adequately implemented during our next review of the Plan.

### **Recommendation**

We recommend that the contracting officer inform the Plan that:

- OPM expects it to fully comply with the records retention provisions of the contract and all applicable regulations;
- it should maintain copies of all pertinent rating documents that show the factors and calculations the Plan uses in developing the actual rates for the FEHBP and the groups closest in size to the FEHBP for each unaudited year;
- it should maintain copies of the enrollment reports and other necessary supporting documents for the FEHBP and the groups closest in size to the FEHBP for each unaudited year; and
- the applicable community-rated performance factors described in FEHBAR 1609.7101-2 will be adversely affected if information requested during audits is not provided

## IV. MAJOR CONTRIBUTORS TO THIS REPORT

### Community-Rated Audits Group

██████████ Auditor-In-Charge

██████████ Staff Auditor

██████████ Staff Auditor

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of South Central Wisconsin

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November 13, 2010

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Chief, Community-Rated Audits Group  
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Dear [REDACTED]

Group Health Cooperative of South Central Wisconsin (GHC-SCW) is in receipt of your October 12, 2010 letter which includes the draft audit report of the Federal Employees Health Benefits Program (FEHBP) at GHC-SCW. The audit covered contract years 2004 through 2009. This letter provides our comments.

The Executive Summary states "the Plan could not provide original source documentation to support the age/sex factors and enrollment used to develop the FEHBP and ...". Although we did not have paper documentation of the exact employee counts that were originally used in developing the age/gender factors for the Federal Group and the SSSG groups we were able to summarize and print, from electronic files that are kept, the information the auditors requested. However, these reports did not match exactly with the data that was originally submitted. When on site, the auditors did point out some of these differences. We immediately, re-ran some of the calculations to determine the impact of these differences. In every situation, there were no significant changes to the rate calculations. Your records should include the emails that outlined these actions.

Our systems are interactive and literally change by the second, therefore for all rating calculations, we extract a copy of the membership data at the time we use it. In addition, our consulting actuaries receive a monthly download of our membership files which they maintain. We were able to show the auditors the data file and the summary of the file, as well as trace all entries. What we believe was a problem, was that it was difficult for the auditors to go back to the interactive file and show the paper trail that matched the original submissions. Our membership system permits updated information to be posted by a multitude of users [billing specialists, claims examiners, and internal auditors for example] with date stamped documentation. Many times the paper support received often lags other information GHC-SCW receives. The GHC-SCW membership and claims systems are the most advanced systems offered by [REDACTED] a leading provider of quality data systems for healthcare providers such as GHC-SCW.

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De Forest, WI 53532  
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[REDACTED]  
U.S. Office of Personnel Management

November 11, 2010

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GHC-SCW now has established a consolidated repository for all FEHBP and SSSG information. In the prior FEHBP audits, this was not recommended or even suggested.

GHC-SCW has always endeavored to maintain all information that was required by the FEHBP contract. We believe that the feedback we received is based on the FEHBP internal interpretation of that contract that has evolved over the last five years since our last audit. This year's audit team had a much different audit process and style than we encountered in our last FEHBP audits. We feel that the purpose of any audit is two fold: Most important – did we do what we were required to do and secondarily – are there processes or steps we need to change. We believe that the audit showed that we did what we were supposed to do. And the auditors were able to point out areas where we could improve. We immediately made those improvements – even before the written report.

Since the auditors found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rating instructions and since the differences in between the original source documentation and the reconstructed documentation from the years in question was not significant, we ask that the contracting officer reconsider assessing GHC-SCW a penalty. Throughout the years GHC-SCW has provided Federal Employees with a proven high quality health plan, rated #7 in the Nation according to Consumer Repots, and at a price that is both fair and conforms to the requirements of the Office of Personnel Management.

Thank you for giving us the opportunity to provide our feedback on the audit results. If you have any further questions, please do not hesitate to contact me.

[REDACTED]  
Finance Director

cc: [REDACTED] Executive Director  
[REDACTED] Sales & Marketing Director  
[REDACTED] Underwriter  
[REDACTED] Account Executive  
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