US OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS

Final Audit Report

Subject:

Audit of The Health Plan of the Upper Ohio Valley

Report No. 1C-U4-00-08-013

Date: January 23, 2009

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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
The Health Plan of the Upper Ohio Valley
Contract Number 2616 - Plan Code U4
St. Clairsville, Ohio

Report No. 1C-U4-00-08-013 **Date: January 23, 2009**

Michael R. Esser
Assistant Inspector General
for Audits

Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
The Health Plan of the Upper Ohio Valley
Contract Number 2616 - Plan Code U4
St. Clairsville, Ohio

Report No. 1C-U4-00-08-013 **Date: January 23, 2009**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at The Health Plan of the Upper Ohio Valley (Plan) in St. Clairsville, Ohio. The audit covered contract years 2003 through 2007 and was conducted at the Plan's office in St. Clairsville, Ohio. This report questions $516,844 for inappropriate health benefit charges in 2005, including $79,072 for lost investment income. We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and the Office of Personnel Management's rating instructions in contract years 2003, 2004, 2006, and 2007.

In 2005, the Plan did not support the [redacted] benefit change factor applied to a similarly sized subscriber group's rates. Accordingly, we changed the factor to [redacted] which resulted in a [redacted] percent discount to the group. We applied that discount to the FEHBP's rates and determined that the FEHBP was overcharged $437,772 in 2005.

Consistent with the FEHBP regulations and contract, the FEHBP is due $79,072 for lost investment income, calculated through December 31, 2008, on the defective pricing finding in 2005. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning January 1, 2009, until all defective pricing amounts have been returned to the FEHBP.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at The Health Plan of the Upper Ohio Valley (Plan). The audit covered contract years 2003 through 2007 and was conducted at the Plan's office in St. Clairsville, Ohio. The audit was conducted pursuant to the provisions of Contract CS 2616; 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

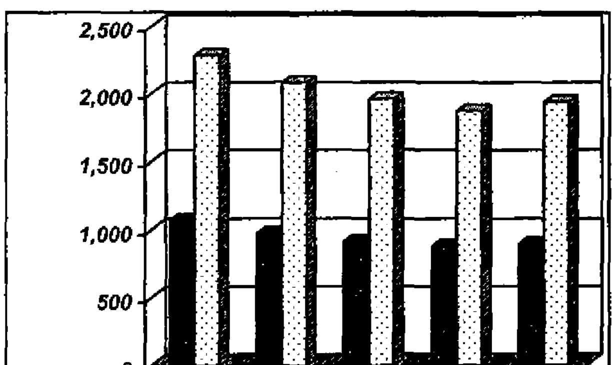
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Center for Retirement and Insurance Services. 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.

FEHBP Contracts/Members
March 31



	2003	2004	2005	2006	2007
■ Contracts	1,070	974	916	880	899
□ Members	2,282	2,083	1,963	1,872	1,941

The Plan has participated in the FEHBP since 1991 and provides health benefits to FEHBP members throughout Northeast and Eastern Ohio and Northern and Central West Virginia. The last full-scope audit covered contract years 2001 and 2002. There were no questioned costs identified during that audit.

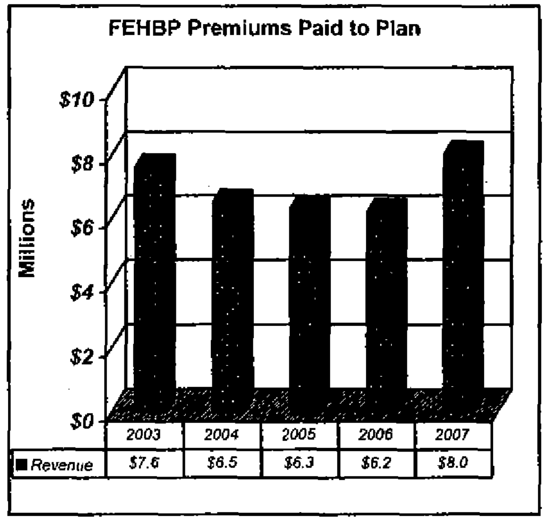
The preliminary results of this audit were discussed with Plan officials at an exit conference. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in the preparation of this final report and are included, as appropriate, as the Appendix.

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 2003 through 2007. During this period, the FEHBP paid approximately $34.6 million in premiums to the Plan. The premiums paid for each contract year audited are shown on the chart to the right.

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 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 St. Clairsville, Ohio, during February 2008. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C.

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 (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 $437,772

The Certificate of Accurate Pricing the Plan signed for contract year 2005 was defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for that year. We applied the defective pricing remedy for the year in question and determined that the FEHBP is entitled to a premium adjustment totaling $437,772 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and OPM rating instructions in contract years 2003, 2004, 2006, and 2007.

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 rates that exceeded the 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.

2005

The Plan selected [redacted] as the SSSGs for contract year 2005. We agree with these selections. Our analysis of the SSSG rates shows that [redacted] did not receive a discount and [redacted] received a [redacted] percent discount. Our review of the [redacted] rate development shows that the Plan applied a [redacted] to account for reductions in the group's benefit level. However, our review of the benefits offered to [redacted] shows that the group's benefits did not decrease from the experience period to the renewal period. Therefore, we did not include the [redacted] factor in our calculation of the audited rates. Since the FEHBP is entitled to a discount equivalent to the largest discount given to either SSSG, we recalculated the FEHBP rates using the [redacted] discount given to [redacted]. A comparison of the audited rates to the reconciled rates shows that the FEHBP was overcharged $437,772 in contract year 2005 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan states that a [redacted] was applied to [redacted] rates during the request for renewal process to account for the addition of several new [redacted] to its rating area. However, [redacted] would not allow the Plan to add the new [redacted] until [redacted] initiated a new request for proposal process. Since [redacted] would not allow the Plan to subsequently alter its proposed renewal rates to remove the [redacted], the Plan believes that it does not owe the FEHBP any additional premium for 2005.

OIG's Response to the Plan's Comments:

According to correspondence provided by the Plan, both a standard bid and an alternate bid, which added [redacted] to the [redacted], were presented to [redacted] Both the standard bid rates and the alternate bid rates were the same. Therefore we contend that the Plan intended to bill [redacted] rates that reflected an adjustment, or the standard and alternate bids would have produced different rates. Accordingly, we do not accept the Plan's contention that it would have adjusted the proposed renewal rates to remove the [redacted] As a result, we continue to recommend that the FEHBP rates be adjusted by the [redacted] percent discount offered to [redacted]

Recommendation 1

We recommend that the contracting officer require the Plan to return $437,772 to the FEHBP for defective pricing in 2005.

2. Lost Investment Income **$79,072**

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 identified in contract year 2005. We determined that the FEHBP is due $79,072 for lost investment income, calculated through December 31, 2008 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning January 1, 2009, until all defective pricing 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 regulations state 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.

We calculated the lost investment income amount based on the United States Department of the Treasury's semiannual cost of capital rates.

Plan's Comments (See Appendix):

The Plan believes its response results in the elimination of the lost investment charge.

OIG's Response to the Plan's Comments:

Lost investment income should be calculated on the defective pricing amounts actually due the FEHBP. Therefore, our lost investment income calculation is based on the defective pricing amounts discussed in this report.

Recommendation 2

We recommend that the contracting officer require the Plan to return $79,072 to the FEHBP for lost investment income calculated through December 31, 2008. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning January 1, 2009, until all defective pricing amounts have been returned to the FEHBP.

3. Prescripton Drug Rebate

In every year of our audit, the Plan's prescription drug rating methodology correctly included an adjustment factor for [redacted]. The adjustment is based on a May 7, 2001, letter from an actuarial consultant. The factor is stated on a [redacted] basis, but the Plan applies it on a [redacted] basis. The same factor was used in the 2003 through 2007 rate developments for the groups reviewed.

Since the information the Plan is using to calculate the [redacted] is several years old, the Plan should update this information. Furthermore, the [redacted] should be based on [redacted] received by the Plan. Finally, since the Plan applies the [redacted] basis, the rebate supporting calculation should also be on a [redacted] basis, not a [redacted] basis.

Plan's Comments (See Appendix):

The Plan did not address this issue in its response.

Recommendation 3

We recommend that the Contracting Officer direct the Plan to update its prescription drug rebate amount. The amount should be based on actual prescription drug rebates received by the Plan and it should be applied on the basis of actual prescription drug benefit usage.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted] Auditor-In-Charge

[redacted] Auditor

[redacted] Chief

Exhibit A

The Health Plan of the Upper Ohio Valley
Summary of Questioned Costs

Defective Pricing Questioned Costs:		
Contract Year 2005	**$437,772**	
Total Defective Pricing Questioned Costs		**$437,772**
Lost Investment Income on Defective Pricing Findings		**$79,072**
Total Questioned Costs		**$516,844**

Exhibit B

The Health Plan of the Upper Ohio Valley
Defective Pricing Questioned Costs

	Self	Family	
Contract Year 2005			
Per Plan's Reconciliation	Self	Family	
1. Actual Community Rate - 1/1/2005	[redacted]		
2. Special Benefit Loadings			
2a. Prescription Drugs			
3. Community Rate plus Special Benefit Loadings	[redacted]		
4. Standard Loadings			
4a. Extension of Coverage - **0.004** x 30%			
4d. Community rate + Spec. Ben. & Standard Loadings	[redacted]		
4e. Enrollment Discrepancies Loading - 1%			
5. TOTAL FEHBP Rates 2005	**$150.73**	**$346.68**	
Contract Year 2005	Self	Family	
Per Audit			
1. Actual Community Rate - 1/1/2005	[redacted]		
2. Special Benefit Loadings			
2a. Prescription Drugs			
3. Community Rate plus Special Benefit Loadings	[redacted]		
4. Standard Loadings			
4a. Extension of Coverage - **0.004** x 30%			
4d. Community rate + Spec. Ben. & Standard Loadings	[redacted]		
4e. Enrollment Discrepancies Loading - 1%			
5. TOTAL FEHBP Rates 2005	**$150.73**	**$346.68**	
5a. TOTAL FEHBP Rates 2005 (with SSSG Discount)	[redacted]		
Overcharge			
To Annualize Overcharge:			
x 3/31/05 Enrollment per Headcount			
x Pay Periods	26	26	
Subtotal	$111,994	$325,778	**$437,772**
Total 2005 Defective Pricing Questioned Costs			**$437,772**

Exhibit C

The Health Plan of the Upper Ohio Valley
Lost Investment Income

Year Audit Findings:	2005	2006	2007	2008	Total
1. Defective Pricing	$437,772	$0	$0	$0	$437,772
Totals (per year):	$437,772	$0	$0	$0	$437,772
Cumulative Totals:	$437,772	$437,772	$437,772	$437,772	$437,772
Avg. Interest Rate (per year):	4.375%	5.4375%	5.5000%	4.9375%	
Interest on Prior Years Findings:	$0	$23,804	$24,077	$21,615	$69,496
Current Years Interest:	$9,576	$0	$0	$0	$9,576
Total Cumulative Interest Calculated Through December 31, 2008:	$9,576	$23,804	$24,077	$21,615	**$79,072**

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Appendix

Commercial HMO
Medicare HMO

December 10, 2008

U4-00-08-013

[redacted]
Chief, Community-Rated Audits Group
U.S. Office of Personnel Management
Office of the Inspector General
1900 E Street, NW
Room 6400
Washington, D.C. 20415-1100
RE: Response to the FEHBP draft audit report
The Health Plan of the Upper Ohio Valley, Inc. (U4)

Dear [redacted]

I have prepared the response to the audit performed by [redacted]

Deleted by the OIG

Not Relevant to the Final Report

In response to the 2005 findings:
[redacted] rate development for 2005 was reduced by a factor of [redacted] due to The Health Plan's anticipation of the addition of several [redacted] to the Health Plan service area brought about by their prior purchase of Hometown (HT) Health Plan in Northeast Ohio. The underwriter used an [redacted] adjustment factor [redacted] that was applied to the

group's incurred claim's experience. In the ACR model, the only area that can be used that affects the premium development for a 100% credibility group is the Benefit Plan Factor column. The underwriter simply applied this aggregate area adjustment factor to the paid claims in order to price the group going forward assuming the addition of the new Health Plan [redacted] that had a significantly lower area adjustment factor (see attached) due to [redacted] factors in those former HomeTown (HT) counties. The Health Plan operated under the false assumption that we would be offered to [redacted] account in all counties that we possessed a [redacted]

Once the rates were presented to [redacted] account through their Request for Renewal process we were not permitted to alter the renewal premiums that we proposed. The Health Plan subsequently learned from [redacted] account that we could only annex our new counties when [redacted] did a Request for <u>Proposal</u>, and not the Request for <u>Renewal</u> process. Thus, the new counties were not annexed, but the rate was considered final by [redacted] account.

Based on this response to the 2005 findings, The Health Plan believes there should be no financial penalty, which would eliminate the lost investment income.

Please consider the above response from The Health Plan. If you find you need more information or have any questions, please contact me at [redacted] or by email at [redacted]

[redacted]

Key Accounts Manager

cc: [redacted]