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

Final Audit Report

Subject:

AUDIT OF HEALTHPARTNERS BLOOMINGTON, MINNESOTA

Report No. 1D-53-00-09-029

Date: April 29, 2010

--CAUTION--

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 Organizations

HealthPartners
Bloomington, Minnesota

HealthPartners Classic Plan
Contract CS 2875 Plan Code 53

HealthPartners Primary Clinic Plan
Contract CS 2874 Plan Code HQ

REPORT NO. 1D-53-00-09-029 DATE: April 29, 2010

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
Experience-Rated Health Maintenance Organization

HealthPartners
Bloomington, Minnesota

HealthPartners Classic Plan
Contract CS 2875 Plan Code 53

HealthPartners Primary Clinic Plan
Contract CS 2874 Plan Code HQ

REPORT NO. 1D-53-00-09-029 DATE: April 29, 2010

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at HealthPartners (Plan), which specifically included the HealthPartners Classic Plan and HealthPartners Primary Clinic Plan, questions $7,279 in pharmacy drug rebates and lost investment income. The report also includes a procedural finding for administrative expenses. The Plan agreed *(A)* with the questioned amount, but disagreed *(D)* with the procedural finding.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits and administrative expenses for 2004 through 2008 as reported in the Annual Accounting Statements. 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:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

- **Pharmacy Drug Rebates *(A)*** **$7,279**

The Plan did not allocate unidentified pharmacy drug rebates to the FEHBP. As a result, the FEHBP is due $7,279, consisting of $6,268 for drug rebates and $1,011 for lost investment income on these drug rebates.

B. ADMINISTRATIVE EXPENSES

- **Unallowable and/or Unallocable Expenses *(D)*** **Procedural**

The Plan allocated unallowable and/or unallocable administrative expenses to the FEHBP from 2004 through 2008. Also, the Plan did not correctly report the actual administrative expenses on the Annual Accounting Statements from 2004 through 2008. Since the Plan's actual administrative expenses exceeded the contractual expense limitations from 2004 through 2008, this is a procedural finding.

C. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contracts CS 2874 and 2875 and applicable laws and regulations, except for the finding pertaining to cash management noted in the "Miscellaneous Health Benefit Payments and Credits" section.

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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 HealthPartners (Plan), pertaining to the HealthPartners Classic Plan and HealthPartners Primary Clinic Plan. The Plan is located in Bloomington, Minnesota.

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 HealthPartners Classic Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.[1] Enrollment is open to all federal employees and annuitants that live or work in the plan's service area, which includes the entire state of Minnesota and the surrounding communities in Western Wisconsin, Northern Iowa, and Eastern North and South Dakota.

The HealthPartners Primary Clinic Plan is also an experience-rated HMO. Enrollment is open to all federal employees and annuitants that live or work in the plan's service area. The plan's service area includes the Minneapolis, Saint Paul, and Saint Cloud metropolitan area; South Central and Southeastern Minnesota and the surrounding communities; and West Central Wisconsin.

The Plan's contracts with OPM for the HealthPartners Classic Plan (CS 2875) and HealthPartners Primary Clinic Plan (CS 2874) are 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.

[1] 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.

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 pertaining to the experience-rated HMO plans. The results of this audit were provided to the Plan in written audit inquiries (findings) during fieldwork and were discussed with Plan officials throughout the audit and at an exit conference. The Plan's comments offered in response to our audit inquiries were considered in preparing our final report and are included as an Appendix to this report. Since the Plan provided complete responses to our audit inquiries, we bypassed the draft report and only issued a final report. The Plan agreed with this decision.

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 contracts. Specifically, our objectives were as follows:

Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contracts.
- 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 contracts were actual, allowable, necessary and reasonable expenses incurred in accordance with the terms of the contracts 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 pertaining to plan codes 53 (HealthPartners Classic Plan) and HQ (HealthPartners Primary Clinic Plan). During this period, the Plan paid approximately $433 million in health benefit charges and $36 million in administrative expenses for the HealthPartners Classic Plan and HealthPartners Primary Clinic Plan (See Figure 1 and Schedule A).[2]

[2] The Plan paid approximately $407 million in health benefit charges and $34 million in administrative expenses for the HealthPartners Classic Plan. Also, the Plan paid approximately $26 million in health benefit charges and $2 million in administrative expenses for the HealthPartners Primary Clinic Plan.

Specifically, 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.

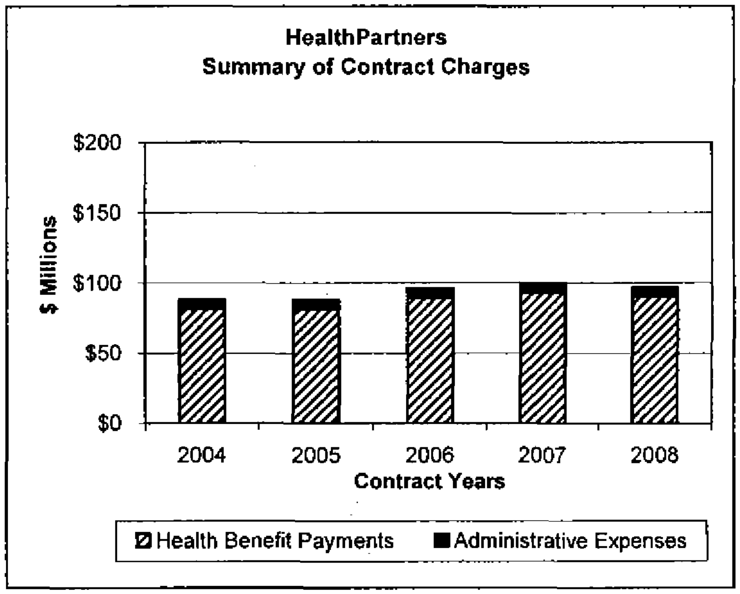

Figure 1 – Contract Charges

We also conducted tests to determine whether the Plan had complied with the contracts, 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 Bloomington, Minnesota from October 20, 2009 through November 19, 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.

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 125 health benefit refunds, totaling $1,771,034 (from a universe of 3,068 refunds, totaling $2,774,815); 24 subrogation recoveries, totaling $429,744 (from a universe of 967 recoveries, totaling $805,100); and all quarterly pharmacy drug rebate receipts, totaling [redacted] to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.[3] 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 cost centers, expense accounts, employee health benefits, executive compensation, subcontracts, non-recurring projects, lobbying, benefit plan brochures, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contracts, 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 also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contracts CS 2874 and 2875 and applicable laws and regulations.

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[3] The sample of health benefit refunds consisted of the 25 highest dollar refunds for each year from 2004 through 2008. The sample of subrogation recoveries consisted of the five highest dollar recoveries from each year in 2004, 2006, 2007, and 2008 and the four highest dollar recoveries from 2005.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Pharmacy Drug Rebates $7,279

The Plan did not allocate unidentified pharmacy drug rebates to the FEHBP. As a result, the FEHBP is due $7,279, consisting of $6,268 for drug rebates and $1,011 for lost investment income (LII) on these drug rebates.

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."

FAR 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."

The Plan allocates and credits pharmacy drug rebates to the FEHBP when the Plan submits the rebate invoices to the pharmaceutical manufacturers. When the drug rebates are received from the manufacturers, the Plan reconciles the differences between the amounts invoiced and the amounts actually received, and then allocates the differences to all lines of business, including the HealthPartners Classic Plan and HealthPartners Primary Clinic Plan. We reviewed this process and verified that pharmacy drug rebates, totaling [redacted] were returned to the FEHBP from 2004 through 2008.

However, during our review, we found that the Plan did not allocate unidentified drug rebates to the FEHBP. For the period 2004 through 2008, the Plan received unidentified drug rebates totaling $[redacted] which were not allocated to the lines of business. We calculated that the FEHBP's allocable share of these unidentified drug rebates totaled $6,268. In addition, the FEHBP is due LII of $1,011 on these rebates, calculated through June 30, 2009.

Plan's Response:

"Health Partners, Inc. concurs with OPM's finding that it has a line item within its reporting of pharmaceutical rebates by Lines of Businesses that is classified as missing. . . . Health Partners did a review of the pharmaceutical rebates within the missing classification and determined that less than $400 was attributed to the FEHBP program over the five year audit period. However, we understand that because we did not specifically identify the FEHBP pharmaceutical rebates within the missing classification we need to follow the same methodology for allocating these rebates to all HeathPartners applicable Lines of

Businesses (rather than to a missing category) as we previously used to allocate rebate payments that are higher or lower than the amounts invoiced to pharmaceutical companies. To eliminate this issue in the future Health Partners will make sure that all missing pharmacy rebates are analyzed and recorded to the correct Lines of Businesses on our pharmacy rebate report."

OIG Comments:

After receiving the Plan's response, we were informed by the Plan via email that the questioned rebate amount of $6,268 and LII of $1,011 were credited to the FEHBP letter of credit account in December 2009 and February 2010, respectively.

Recommendation 1

We recommend that the contracting officer verify that the Plan credited the FEHBP $6,268 for unidentified drug rebates.

Recommendation 2

We recommend that the contracting officer verify that the Plan credited the FEHBP $1,011 (plus interest accruing after June 30, 2009) for LII on the questioned drug rebates.

B. ADMINISTRATIVE EXPENSES

1. Unallowable and/or Unallocable Expenses — Procedural

The Plan allocated unallowable and/or unallocable administrative expenses to the FEHBP from 2004 through 2008. Also, the Plan did not correctly report the actual administrative expenses on the Annual Accounting Statements (AAS) from 2004 through 2008. Since the Plan's actual administrative expenses exceeded the contractual expense limitations from 2004 through 2008, even after the unallowable and/or unallocable amounts are deducted, this is a procedural finding.[4]

Part III, Section 3.2 (b)(1) of Contracts CS 2874 and 2875 states, "The Carrier may charge a cost to the contract . . . if the cost is actual, allowable, allocable, and reasonable." In regards to the certification of the annual accounting statement accuracy, Section 3.2 (c)(1) states, "The Carrier shall certify the annual and fiscal year accounting statements in the form set forth in paragraph (c)(3) of this clause." This clause states, "The costs included in the statement are actual, allowable, allocable, and reasonable in accordance with the terms of the contract and with the cost principles of the Federal Employees Health Benefits Acquisition Regulation and the Federal Acquisition Regulation."

[4] The Plan's actual administrative expenses exceeded the contractual expense limitations by $2,882,937, $1,910,525, $1,749,401, $1,908,230, and $701,000 from 2004 through 2008, respectively, for the HealthPartners Classic Plan. Also, the Plan's actual administrative expenses exceeded the contractual expense limitations by $134,775, $26,677, $3,582, $31,322, and $18,572 from 2004 through 2008, respectively, for the HealthPartners Primary Clinic Plan.

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 31.205-1 through 205-52 specifically address certain costs and state that entertainment and charitable contributions are unallowable.

Regarding public relations, sales, advertising, and marketing expenses charged to the FEHBP, 48 CFR 31.205-1 and 48 CFR 1631.205-70 provide specific criteria on the extent to which such expenses are chargeable. Generally, these regulations state that such expenses are unallowable.

48 CFR 31.201-6 (a) states, "Costs that are expressly unallowable . . . including . . . unallowable directly associated costs, shall be identified and excluded from any billing . . . to a Government contract."

The Plan uses an administrative cost allocation model, which is built on a Microsoft Excel based platform, to allocate administrative expenses to the FEHBP. The allocation model has three administrative components: corporate, medical, and pharmacy/dental. We found that the Plan's allocation model does not make distinctions for the FEHBP plans, and therefore, allocates administrative expenses to the FEHBP regardless of the allowability and/or allocability of the expenses. Furthermore, the Plan informed us that there are no specific procedures in place to identify and exclude unallowable and/or unallocable expenses from the allocations to the FEHBP. As a result, the Plan allocates expenses to the FEHBP that are unallowable and/or unallocable under the FAR and FEHBAR.

Based on the Plan's accounting unit titles and descriptions and/or the Plan's responses to our accounting unit questionnaires, we identified numerous expenses allocated to the FEHBP that are unallowable, partially unallowable, and/or do not benefit the FEHBP. Specifically, we identified expenses pertaining to advertising, marketing, sales, entertainment, legal matters, sport sponsorships, charitable contributions, and other lines of business that should be excluded from the cost allocations to the FEHBP but are not.

For example, we identified the following unallowable and/or unallocable expenses in 2008 during our accounting unit review and transaction testing:

- 18 accounting units with expenses for sales, advertising, marketing, and/or public relations were allocated to the FEHBP. The Plan allocated $673,094 of these accounting units' expenses to the FEHBP. These types of expenses are generally unallowable.

- $130,460 in project/audit expenses were specifically incurred for the Medicaid and Medicare lines of business in accounting unit "12811222" (Government Programs). $20,144 of these expenses were allocated to the FEHBP. During the audit, the Plan subsequently removed this accounting unit's costs from the FEHBP allocation.

- $7,630 of $140,948 in charitable contributions, sport sponsorships, and entertainment expenses were also allocated to the FEHBP.

After discussing our concerns with the Plan, the Plan removed a majority of these questionable expense types from the FEHBP's allocation in the administrative cost model.

In addition, we found that the Plan did not correctly report the actual administrative expenses on the 2004 through 2008 AAS's. For example, the Plan incurred actual administrative expenses of $8,986,524 for the HealthPartners Classic Plan, but only reported $7,078,294 on the 2007 AAS, which equaled the contractual expense limitation. Similarly, the Plan incurred actual administrative expenses of $311,130 for the HealthPartners Primary Clinic Plan, but only reported $279,808 on the 2007 AAS, which also equaled the contractual expense limitation.

Plan's Response:

"HealthPartners, Inc. (HPI) uses a comprehensive administrative allocation model to allocate administrative costs across all Lines of Business that HPI sells. . . . HPI feels that this model is an accurate representation of the administrative expense of each of our line of business which would include the Federal Employees Health Benefit Plan . . .

The audit inquiry or procedural findings related to our administrative model identifies examples of areas of expenses that are deemed unallowable or unallocable to the FEHBP program that were allocated to the FEHBP program within our administrative model. However, it should be clearly noted that they were never charged to the FEHBP program because our limits were substantially lower than our administrative expenses calculated by our model and thus they were never included in our AAS statements or were they drawn down from our LOC account for any of the years under audit.

HPI does have policies and procedures in place related to certain expenses that are considered unallowable for the FEHBP program. Those expenses are either prohibited by HPI, have significant restrictions on the reimbursement for those expenses or are not expensed to administrative accounting units that are allocated to the FEHBP program. HPI does acknowledge that while we do our best to identify and remove those unallowable costs that there are instances where they are not removed from our administrative allocation model especially in contributions, donations and entertainment costs. However, as an organization HPI spends very little on contributions, donations and entertainment costs . . .

HPI does acknowledge that if our actual administrative costs calculated by our administrative allocation model were close to our ceiling limit that the way our model works there would be the potential of charging the FEHBP program for unallowable or unallocable costs. HPI did try each year to implicitly remove those costs from our administrative model related to the FEHBP program. While the OPM auditors were on site we revised each year's administrative model to explicitly remove unallowable or unallocable costs and compared that against the amount that we implicitly removed. The impact of this change to the calculated administrative costs of the FEHBP program was immaterial and did not impact the amount that we charged to the FEHBP each year."

OIG Comments:

Since the Plan's actual administrative expenses exceeded the contractual expense limitations from 2004 through 2008, we agree that the expense limitations implicitly minimized the chances that unallowable and/or unallocable expenses were charged to the FEHBP. However, the Plan should have specific procedures to identify and remove unallowable and/or unallocable expenses from the allocations to the FEHBP. With these procedures in place, the Plan could clearly demonstrate that certain unallowable and/or unallocable expenses were not allocated to the FEHBP, especially if the actual administrative expenses in the future are close to or less than the annual contractual expense limitation.

Recommendation 3

We recommend that the contracting officer instruct the Plan to implement procedures to ensure that unallowable and/or unallocable expenses are excluded from the expense allocations to the FEHBP.

Recommendation 4

We recommend that the contracting officer instruct the Plan to correctly report actual administrative expenses on the AAS.

C. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contracts CS 2874 and 2875 and applicable laws and regulations, except for the finding pertaining to cash management noted in the "Miscellaneous Health Benefit Payments and Credits" section.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

[redacted] Auditor-In-Charge

[redacted] Team Leader

[redacted] Auditor

[redacted] Chief [redacted]

[redacted], Senior Team Leader

V. SCHEDULE A

HEALTH PARTNERS
BLOOMINGTON, MINNESOTA

CONTRACT CHARGES AND AMOUNTS QUESTIONED

CONTRACT CHARGES (PLAN CODES 53/HQ)*	2004	2005	2006	2007	2008		TOTAL
HEALTH BENEFIT CHARGES	$81,026,684	$80,936,757	$88,783,882	$92,702,495	$89,712,635		$433,162,453
ADMINISTRATIVE EXPENSES	6,957,679	6,862,173	7,144,481	7,358,102	7,366,801		35,689,236
OTHER EXPENSES AND RETENTIONS	327,475	370,535	240,735	187,019	160,655		1,286,419
TOTAL CONTRACT CHARGES	$88,311,838	$88,169,465	$96,169,098	$100,247,616	$97,240,091		$470,138,108

AMOUNTS QUESTIONED	2004	2005	2006	2007	2008	2009	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS							
1. Pharmacy Drug Rebates**	$1,747	$73	$745	$2,620	$1,917	$176	$7,279
B. ADMINISTRATIVE EXPENSES							
1. Unallowable and/or Unallocable Expenses (Procedural)	0	0	0	0	0	0	0
C. CASH MANAGEMENT	0	0	0	0	0	0	0
TOTAL AMOUNTS QUESTIONED	$1,747	$73	$745	$2,620	$1,917	$176	$7,279

* We did not review claim payments and other expenses and retentions.

** This audit finding also includes lost investment income of $1,011.

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January 19, 2010

[redacted] Group Chief
Experience-Rated Audits Group
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, Room 6400
Washington, DC 20415-1100

Dear [redacted]

Attached are HealthPartners' response to the two audit inquires related to the audits of HealthPartners Plan Code 53 and Plan Code HQ FEHBP Experience rated contracts for the years 2004 through 2008. If you have any questions regarding our response please feel free to contact me at 952-883-6535 or Kevin Brandt at 952-883-6584.

[redacted]

Senior Vice President and Chief Financial Officer

Attachments (2)
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Audit Inquire #1: Pharmacy Drug Rebates

HealthPartners, Inc. concurs with OPM's finding that it has a line item within its reporting of pharmaceutical rebates by Lines of Businesses that is classified as missing. While the OPM auditors were on site, HealthPartners did a review of the pharmaceutical rebates within the missing classification and determined that less than $400 was attributed to the FEHBP program over the five year audit period. However, we understand that because we did not specifically identify the FEHBP pharmaceutical rebates within the missing classification we need to follow the same methodology for allocating these rebates to all HealthPartners applicable Lines of Businesses (rather than to a missing category) as we previously used to allocate rebate payments that are higher or lower than the amounts invoiced to pharmaceutical companies. To eliminate this issue in the future HealthPartners will make sure that all missing pharmacy rebates are analyzed and recorded to the correct Lines of Businesses on our pharmacy rebate report.

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Audit Inquire #2: Administrative Expenses

HealthPartners, Inc. (HPI) uses a comprehensive administrative allocation model to allocate administrative costs across all Lines of Business that HPI sells. This model is used to allocated such costs as ; Legal, Finance, Actuary, Underwriting, Human Resources, Information Services, Sales, Marketing, Claims Processing, Membership Accounting, Member Services, Disease Management, Quality and Utilization Management, Health Improvement Programs, Pharmacy Administration and Dental Administration. HPI tracks these costs through approximately 225 accounting units/departments within our financial system. Each administrative accounting unit is reviewed each year to come up with the best allocation methodology to use in allocating the accounting unit costs across each lines of business. HPI uses multiple allocation methodologies in the model. They include allocations using membership, member months, weighted member months, claims counts, input from leaders of the accounting unit, direct allocations and percentage effort of each accounting unit by line of business. HPI feels that this model is an accurate representation of the administrative expense of each of our line of business which would include the Federal Employees Health Benefit Plan (FEHBP).

From 2003 to 2007 HPI reported on its Annual Accounting Statements (AAS) Supplemental Schedule of Administrative Expenses and the Special Purpose Statements of Operations its administration ceiling limit each year calculated by the Office of Personal Management (OPM). The reason why HPI reported its ceiling limit is because our internal administration allocation model calculated administration expense exceeding our annual ceiling limit. Thus we were only allowed to report and charge the FEHBP program our ceiling limit. In 2008 after discussions with OPM and at the request of OPM we changed how we reported administration expense on our Supplement Schedule of Administrative Expenses to the actual administrative expenses calculated from our internal administration allocation model. However, because our model calculated an administrative expense that exceeded our ceiling limits calculated by OPM we only charged and reported on the Special Purpose Statements of Operations of the AAS statements our ceiling limits and we did not charge the FEHBP for our actual administrative costs associated with running the FEHBP program.

The audit inquiry or procedural findings related to our administrative model indentifies examples of areas of expenses that are deemed unallowable or unallocable to the FEHBP program that were allocated to the FEHBP program within our administrative model. However, it should be clearly noted that they were never charged to the FEHBP program because our limits were substantially lower than our administrative expenses calculated by our model and thus they were never included in our AAS statements or were they drawn down from our LOC account for any of the years under audit.

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HPI does have policies and procedures in place related to certain expenses that are considered unallowable for the FEHBP program. Those expenses are either prohibited by HPI, have significant restrictions on the reimbursement for those expenses or are not expensed to administrative accounting units that are allocated to the FEHPB program. HPI does acknowledge that while we do our best to identify and remove those unallowable costs that there are instances where they are not removed from our administrative allocation model especially in contributions , donations and entertainment costs. However, as an organization HPI spends very little on contributions, donations and entertainment costs of which only approximately 3% to 6% of those costs would be allocated the FEHBP program though our allocation model if we did not remove those costs from our model. It should also be noted again that even though some unallowable costs did get allocated the FEHBP program line of business in our administrative allocation model it was not charged to the FEHBP program.

HPI does acknowledge that if our actual administrative costs calculated by our administrative allocation model were close to our ceiling limit that the way our model works there would be the potential of charging the FEHBP program for unallowable or unallocable costs. HPI did try each year to implicitly remove those costs from our administrative model related to the FEHBP program. While the OPM auditors were on site we revised each year's administrative model to explicitly remove unallowable or unallocable costs and compared that against the amount that we implicitly removed. The impact of this change to the calculated administrative costs of the FEHBP program was immaterial and did not impact the amount that we charged to the FEHBP each year.