



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 GlobalHealth, Inc.

Report No. 1C-IM-00-11-026

Date: August 17, 2011

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
GlobalHealth, Inc.
Contract Number 2893 - Plan Code IM
Oklahoma City, Oklahoma**

Report No. 1C-IM-00-11-026

Date: August 17, 2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at GlobalHealth, Inc. (Plan). The audit covered contract years 2006 through 2010 and was conducted at the Plan's office in Oklahoma City, Oklahoma. Additional field work was performed at our office in Cranberry Township, Pennsylvania. During our review we could not conclude if the FEHBP received a market rate for any year under review. However, we were able to determine that the FEHBP rates were developed in accordance with the Plan's established rating practices and accepted the FEHBP rates as fair and reasonable for all years.

During our review of the Plan's FEHBP rating, we found three procedural issues that the Plan must address. The first two concern the Plan's 2009 rating year. In 2009 the Plan i) did not apply a prescription drug rebate to the FEHBP; and ii) did not apply the correct benefit change factor to the FEHBP. We adjusted the 2009 FEHBP rates to account for each issue; however, the monetary impact was not significant enough to result in questioned costs. The third, and most significant issue, is that the Plan did not have the required two Similarly Sized Subscriber Groups (SSSGs) for any of the years reviewed. The SSSGs are crucial as the FEHBP is compared with the SSSGs to verify that the FEHBP received a market rate for all contract years. In 2006, the Plan had no viable SSSGs and for 2007 through 2010, the Plan had only one group that qualified as an SSSG.



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AUDIT REPORT

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Community-Rated Health Maintenance Organization
GlobalHealth, Inc.
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Report No. 1C-IM-00-11-026

Date: August 17, 2011

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

**Michael R. Esser
Assistant Inspector General
for Audits**

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at GlobalHealth, Inc. (Plan). The audit covered contract years 2006 through 2010 and was conducted at the Plan's office in Oklahoma City, Oklahoma. The audit was conducted pursuant to the provisions of Contract CS 2893; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

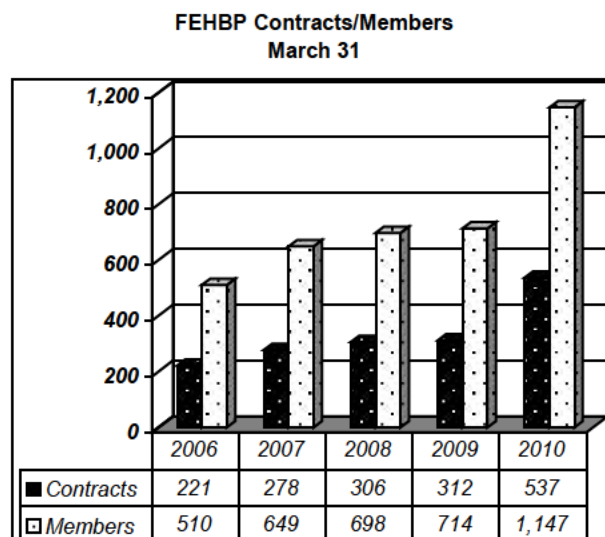
Background

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

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

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

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



The Plan has participated in the FEHBP since 2005 and provides health benefits to FEHBP members in the Oklahoma City and Tulsa, Oklahoma areas. This is the first audit of the Plan conducted by our office since the start of its participation in the FEHBP.

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.

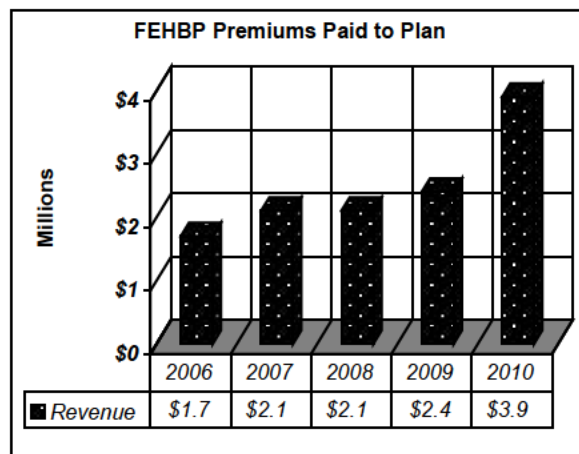
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2006 through 2010. For these years, the FEHBP paid approximately \$12.2 million in premiums to the Plan. The premiums paid for each contract year audited are shown on the chart above.

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

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

- The appropriate similarly sized subscriber groups (SSSG) were selected;
- the rates charged to the FEHBP were the market price rates (i.e., equivalent to the best rate offered to 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 Oklahoma City, Oklahoma, during January 2011. Additional audit work was completed at our office in Cranberry Township, Pennsylvania.

Methodology

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete, and valid. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations, 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 Rate Review

Based on our audit, we have accepted the Plan's rating of the FEHBP for contract years 2006 through 2010 and have no questioned costs. However, we found the following issues in our review that merit corrective action and follow-up:

1. 2009 Prescription Drug Rebate Discount

The FEHBP reconciliation instructions for contract year 2009 state that all discounts applied to an SSSG are to be applied to the FEHBP using the same methodology as the SSSGs. We consider a prescription drug (Rx) rebate, in the form of a reduction in pharmacy claims, as a discount. Our review of the FEHBP claims determined that an Rx rebate was not applied to the FEHBP for the 2009 contract year; however, a [REDACTED] percent Rx rebate was applied to the one SSSG reviewed in 2009. The amount of the Rx rebate cost to the FEHBP was not significant enough to result in questioned costs. However, the Plan is required to apply all discounts to the FEHBP that are applied to the SSSG, which would include the Rx discount.

Plan's Comments (See Appendix):

The Plan will implement enhanced internal controls to ensure the appropriate Rx rebate is applied to the FEHBP. The enhanced internal controls will include executive leadership level review during the rate development by the Vice President of Finance and the Senior Vice President of Government Programs.

OIG's Response to the Plan's Comments:

We agree with the Plan's decision to implement enhanced internal controls and executive leadership review to ensure the FEHBP receives the appropriate Rx rebate.

Recommendation 1

We recommend that the contracting officer require the Plan to ensure that it applies the appropriate Rx rebate to the FEHBP using the same methodology as the SSSG.

2. 2009 Incorrect Benefit Change Factor

During our review we found that the Plan applied an incorrect benefit change factor to the 2009 FEHBP rate development. We applied the correct benefit change factor to the FEHBP audited rate development and found that the FEHBP rates were overstated for the 2009 contract year. However, the amount of the benefit change factor correction was not significant enough to result in questioned costs. Nevertheless, the Plan should take the necessary precautions to verify that the correct benefit change factor is appropriately applied.

Plan's Comments (See Appendix):

The Plan will implement enhanced internal controls to ensure the necessary steps are taken to verify the appropriate benefit change factor is applied to the FEHBP.

OIG's Response to the Plan's Comments:

We agree with the Plan's decision to implement enhanced internal controls to verify the FEHBP receives the appropriate benefit change factor.

Recommendation 2

We recommend that the contracting officer require the Plan to take the necessary precautions to verify that the correct benefit change factor is appropriately applied to the FEHBP.

3. Non-Compliance with the Two SSSG Rule

The FEHBP reconciliation instructions for community-rated carriers participating in the program in contract years 2006 through 2010 state that each plan must select two SSSGs per plan code and must identify these groups in the submissions to OPM. The SSSG concept was developed to ensure that the FEHBP receives an equitable and reasonable market-based rate. At the time of reconciliation, OPM determines the FEHBP rate by selecting the lower of the rates derived by using rating methods consistent with those used to derive the SSSG's rates. OPM focuses on the rating methods used for the two SSSGs to determine if a plan appropriately derived the Federal group rates.

During our review, we found that the Plan did not have SSSGs for the 2006 contract year and only one SSSG for contract years 2007 through 2010. Therefore, OPM cannot be assured the FEHBP received an equitable and reasonable market-based rate for contract years 2006 through 2010.

Plan's Comments (See Appendix):

The Plan states it has taken corrective action to position itself for future growth. These actions include the hiring of a larger leadership staff; opening another corporate office in Tulsa, Oklahoma; enhancing their information and technology systems; changes in their commercial growth and sales strategies; an enhanced participating provider network; and an expanded service area.

OIG's Response to the Plan's Comments:

We agree with the Plan's decisions for capturing future commercial growth. By adding commercial groups, other SSSGs would be available to audit. In addition, since OPM is transitioning from the SSSG methodology to the Medical Loss Ratio (MLR) methodology in 2013, the SSSG issue will resolve itself.

Recommendation 3

We recommend that the contracting officer require the Plan to follow all rules and rating instructions, including those regarding the requirement to identify and compare the FEHBP to two SSSGs, until the transition to the MLR methodology.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-in-Charge

██████████, Auditor

██████████, Deputy Assistant Inspector General for Audits

██████████, Senior Team Leader



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Sent Via Return Receipt Requested

June 30, 2011

Melissa D. Brown, Community-Rated Audits Group Chief
U.S. Office of Personnel Management
Office of the Inspector General
1900 E Street, NW
Room 6400
Washington, D.C. 20415-1100

RE: Audit of GlobalHealth, Inc. Draft Report No. 1C-IM-00-11-026
Contract No. CS 2893 – Plan Code IM

Dear Melissa Brown:

This letter and our responses are provided in connection with the draft audit report of the Federal Employees Health Benefits Program (FEHBP) operations of GlobalHealth, Inc. covering contract years 2006 through 2010. Below we have restated OIG/OPM's recommendations as it relates to the three (3) procedural issues specified in the draft audit report followed by our response and actions:

2009 Prescription Drug Rebate Discount

OIG/OPM Recommendation 1 - HMO Community-Rated FEHBP Carrier to ensure that it applies the appropriate Rx rebate to the FEHBP using the same methodology as the SSSG.

GlobalHealth Response:

GlobalHealth met with its consulting actuarial firm, Milliman, as well as internal staff involved in the FEHBP. GlobalHealth will implement enhanced internal controls to ensure the appropriate Rx rebate is applied to the FEHBP using the same methodology that GlobalHealth uses in the SSSG. The enhanced internal controls will include executive leadership level review and oversight during the rate development by the Vice President of Finance and the Senior Vice President of Government Programs.

2009 Incorrect Benefit Change Factor

OIG/OPM Recommendation 2 - HMO Community-Rated FEHBP Carrier to take the necessary precautions to verify that the correct benefit change factor is appropriately applied to the FEHBP.

GlobalHealth Response:

GlobalHealth will implement enhanced internal controls to ensure the necessary steps are taken to verify the correct benefit change factor is appropriately applied to the FEHBP.

Non-Compliance with the Two SSSG Rule

OIG/OPM Recommendation 3 - HMO Community-Rated FEHBP Carrier to follow all rules and rating instructions, including those regarding the requirement to identify and compare the FEHBP to two SSSGs.

GlobalHealth Response:

During the scope of the audit covering years 2006 through 2010 GlobalHealth followed to the best of its ability the rules and rating instructions regarding the requirement to perform annual FEHBP Rate Reconciliation to SSSGs taking into consideration the limited portfolio of contracted SSSGs was limited to one (1) contracted SSSG.

GlobalHealth has taken the following corrective actions to position itself for future growth:

Administrative Operations

- Hired new President and Chief Executive Officer
- Hired and added five (5) new talented executives on GlobalHealth's executive leadership team
- Opened an additional corporate office in Tulsa, Oklahoma

Enhanced Information Systems and Technology

- Implemented GlobalLink, GlobalHealth's on-line participating provider network portal during first quarter 2010. With the implementation of GlobalLink, participating provider network satisfaction has increased as a result of GlobalHealth's administrative handling, accuracy and timeliness of authorization requests, claims status checking, verification of member eligibility, etc.
- Investment in information systems and information technology

Commercial HMO Sales and Growth

- Enhanced HMO Benefit Plans and Product Offerings
- Native American and other forms of Associations Growth Strategy
- Broker Relationship Strategy

Enhanced Participating Provider Network

- Added key participating health care systems, network hospitals and network primary care physicians.

Expanded Service Area

- Received state regulatory approval in April 2010 to offer Commercial HMO products in all 77 counties in Oklahoma

We appreciate the opportunity to provide our comments and actions addressing the procedural issues in connection with the draft audit report. Should you have any questions or need additional information please feel free to contact the Government Programs Account Executive, Faith Nix, or myself at (405) 280-5656.

Respectfully,


Debbie Ward
Senior Vice President – Government Programs
GlobalHealth, Inc.

Enclosure (1)

CC: Scott Vaughn, GlobalHealth, Inc. President and Chief Executive Officer
Thys J. DeYoung, Chief Health Insurance Group III - Insurance Services Program
Kathryn J. Wick, OIG/OPM Office of Audits - Senior Team Leader
Ron Rhinehart, OPM Senior Contracting Specialist
W. Rick Davis, OIG/OPM Community-Rated Audits Group – Auditor in Charge
Garrison G. Phillis, OIG/OPM Community-Rated Audits Group – Auditor