



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 AmeriHealth HMO, Inc.**

Report No. 1C-FK-00-10-058

Date: March 24, 2011

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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
AmeriHealth HMO, Inc.
Contract Number CS 1893 - Plan Code FK
Iselin, New Jersey**

Report No. 1C-FK-00-10-058

Date: 3/24/2011

A handwritten signature in dark ink, appearing to read "Michael R. Esser", written over a horizontal line.

**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
Community Rated Health Maintenance Organization
AmeriHealth HMO, Inc.
Contract Number CS 1893 - Plan Code FK
Iselin, New Jersey**

Report No. 1C-FK-00-10-058

Date: 3/24/2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at AmeriHealth HMO, Inc. (Plan). The audit covered contract years 2007 through 2010 and was conducted at the Plan's office in Iselin, New Jersey. This report questions \$212,942 for inappropriate health benefit charges in contract years 2007 through 2009, including \$22,225 for related lost investment income. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract year 2010.

In 2007 through 2009, the Plan incorrectly applied the discount to line 1 of the FEHBP rates. In 2007, the similarly sized subscriber group (SSSG) discount represented a total rate discount, encompassing all costs, including base medical costs and other benefit riders. However, the discount was applied to the FEHBP's medical costs only (i.e., line 1), exclusive of the FEHBP's benefit riders. Applying a total rate discount to the FEHBP's base medical rate is inconsistent treatment; therefore, we removed the discount from line 1 and applied it to line 5. For 2008 and 2009, the proposal instructions state all discounts should be applied to line 5 of the FEHBP reconciled rates. Accordingly, we removed the discount from line 1 and computed the audited FEHBP rates by applying the largest discount given to an SSSG to line 5 of the FEHBP rates. As a result, the FEHBP rates were overstated by \$49,224, \$119,028, and \$22,465 for 2007 through 2009, respectively.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$22,225 for lost investment income, calculated through December 31, 2010, on the defective pricing findings in 2007 through 2009.

The Plan agreed with the findings and remitted a check for \$212,942.

CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY.....	i
I. INTRODUCTION AND BACKGROUND.....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY.....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS.....	5
Premium Rate Review.....	5
1. Defective Pricing.....	5
2. Lost Investment Income.....	7
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	8
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at AmeriHealth HMO, Inc. (Plan). The audit covered contract years 2007 through 2010 and was conducted at the Plan's offices in Iselin, New Jersey. The audit was conducted pursuant to the provisions of Contract CS 1893; 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

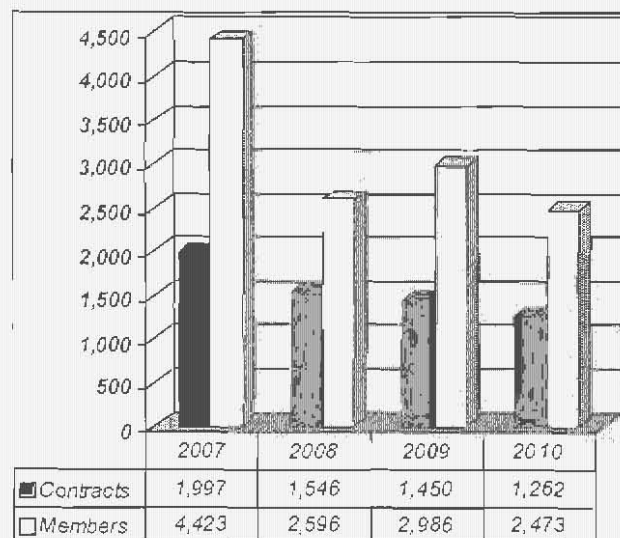
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office. 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 various 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 of each contract year audited.

**FEHBP Contracts/Members
March 31**



The Plan has participated in the FEHBP since 1980 and provides comprehensive medical services to FEHBP members throughout the State of New Jersey. The last audit of the Plan conducted by our office was a full scope audit of contract years 2003 through 2006. All issues related to that audit have been resolved.

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 agreed with the findings and remitted a check for \$212,942, representing full payment for the findings.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

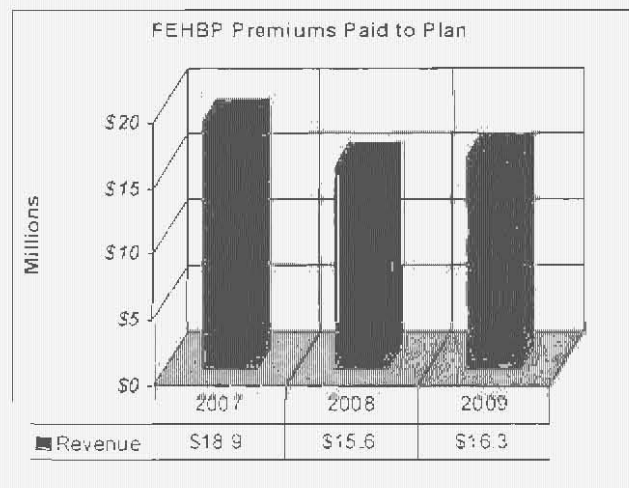
Objectives

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 2007 through 2010. For contract years 2007 through 2009, the FEHBP paid approximately \$50.8 million in premiums to the Plan.¹ 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 systems 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 an SSSG); and
- the loadings to the FEHBP rates were reasonable and equitable.

¹ The premiums paid for 2010 were not available at the time this report was completed.

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 performed 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 Iselin, New Jersey, during August 2010. Additional audit work was completed at our offices in Washington, D.C., Jacksonville, Florida, and 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 rate 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 systems.

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

1. Defective Pricing

\$190,717

The Certificates of Accurate Pricing the Plan signed for contract years 2007 through 2009 were defective. In accordance with federal regulations, the FEHBP is therefore due a rate reduction for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$190,717 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations in contract year 2010.

FEHBAR 1652.215-70 provides that 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 higher than a 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.

2007

We agree with the Plan's selection of [REDACTED] as the SSSGs for contract year 2007. Our analysis of the SSSGs' rates shows that [REDACTED] received a [REDACTED] percent discount and Grinspec Trust received a [REDACTED] percent discount.

Our analysis of the FEHBP rates shows that the Plan applied an [REDACTED] percent discount to line 1 of the FEHBP rates. We do not agree with applying the discount to line 1, which represents the FEHBP's base medical costs, exclusive of any benefit riders. The SSSG discount represents a total rate discount, encompassing all costs, including base medical and other benefit riders. Therefore, applying the discount to the FEHBP's line 1 rates is inconsistent, and we calculated our audited FEHBP rates by removing the discount from line 1 and applying the largest SSSG discount identified during our review to line 5.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates given to an SSSG, we recalculated the FEHBP rates by applying the factors, trends, and the [REDACTED] percent discount given to Grinspec Trust. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$49,224 in 2007 (see Exhibit B).

2008

We agree with the Plan's selection of [REDACTED] as the SSSGs for contract year 2008. Our analysis of the SSSGs' rates shows

that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount.

Our analysis of the FEHBP rates shows that the Plan applied an [REDACTED] percent discount to line 1 of the FEHBP rates, as well as a [REDACTED] percent discount to the prescription drug (Rx) portion of the rate. As stated in the 2008 proposal instructions, all discounts should be applied to line 5 of the FEHBP reconciled rates. Accordingly, we calculated our audited rates by removing the discounts from line 1 and the Rx rate and applying the largest SSSG discount identified during our review to line 5.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates for an SSSG, we recalculated the FEHBP rates by applying the factors, trends, and the [REDACTED] percent discount given to [REDACTED]. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$119,028 in 2008 (see Exhibit B).

2009

The Plan selected [REDACTED] as the SSSGs for contract year 2009. We agree with the selection of [REDACTED] and disagree with the selection of [REDACTED]. [REDACTED] terminated its contract with the Plan one month after renewal. Therefore, [REDACTED] became ineligible to be selected as an SSSG in 2009. Accordingly, [REDACTED] should have been selected as an SSSG.

The analysis of the SSSGs' rates shows that [REDACTED] received an [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount.

Our analysis of the FEHBP rates shows that the Plan applied an [REDACTED] percent discount to line 1 of the FEHBP rates, as well as an [REDACTED] percent discount to the Rx portion of the rate. As stated in the 2009 proposal instructions, all discounts should be applied to line 5 of the FEHBP reconciled rates. Accordingly, we calculated our audited rates by removing the discounts from line 1 and the Rx rates and applying the largest SSSG discount identified during our review to line 5.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates for an SSSG, we recalculated the FEHBP rates by applying the factors, trends, and the [REDACTED] percent discount given to [REDACTED]. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$22,465 in 2009 (see Exhibit B).

Plan's Comments:

The Plan submitted a check, dated February 11, 2011, totaling \$212,942 (\$190,717 defective pricing plus \$22,225 lost investment income). This evidences concurrence by the Plan to our defective pricing findings and no further action is required.

Recommendation 1

After receiving the draft report, the Plan returned \$190,717 to the FEHBP for defective pricing in contract years 2007 through 2009. Since we verified that the Plan returned \$190,717 to the FEHBP, no further action is required.

2. Lost Investment Income

\$22,225

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 findings in contract years 2007 through 2009. We determined that the FEHBP is due \$22,225 for lost investment income, calculated through December 31, 2010 (see Exhibit C).

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 regulation states 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.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

Plan's Comments:

The Plan submitted a check, dated February 11, 2011, totaling \$212,942 (\$190,717 defective pricing plus \$22,225 lost investment income). This evidences concurrence by the Plan to our lost investment income finding and no further action is required.

Recommendation 2

After receiving the draft report, the Plan returned \$22,225 to the FEHBP for lost investment income on the defective pricing findings in contract years 2007 through 2009. Since we verified that the Plan returned \$22,225 to the FEHBP, no further action is required.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

██████████ Chief

██████████ Senior Team Leader

AmeriHealth HMO, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:

Contract Year 2007	\$49,224
Contract Year 2008	\$119,028
Contract Year 2009	\$22,465

Total Defective Pricing Questioned Costs: \$190,717

Lost Investment Income: \$22,225

Total Questioned Costs: **\$212,942**

AmeriHealth HMO, Inc.
Defective Pricing Questioned Costs

2007

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/07 enrollment			
Pay Periods	26	26	
Subtotal			
Total 2007 Defective Pricing Questioned Costs			<u>\$49,224</u>

2008 - High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment			
Pay Periods	26	26	
Subtotal			
Total 2008 High Option Defective Pricing Questioned Costs			<u>\$115,078</u>

2008 - Standard Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment			
Pay Periods	26	26	
Subtotal			
Total 2008 Standard Option Defective Pricing Questioned Costs			<u>\$3,950</u>
Total 2008 Defective Pricing Questioned Costs			<u>\$119,028</u>

AmeriHealth HMO, Inc.
Defective Pricing Questioned Costs

2009 - High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/09 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Total 2009 High Option Defective Pricing Questioned Costs			\$21,814

2009 - Standard Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/09 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Total 2009 Standard Option Defective Pricing Questioned Costs			<u>\$651</u>
Total 2009 Defective Pricing Questioned Costs			<u>\$22,465</u>

EXHIBIT C

**AmeriHealth HMO, Inc.
Lost Investment Income**

Year	2007	2008	2009	2010	Total
Audit Findings:					
1. Defective Pricing	\$49,224	\$119,028	\$22,465	\$0	\$190,717
Totals (per year):	\$49,224	\$119,028	\$22,465	\$0	\$190,717
Cumulative Totals:	\$49,224	\$168,252	\$190,717	\$190,717	\$190,717
Avg. Interest Rate (per year):	5.500%	4.938%	5.2500%	3.1875%	
Interest on Prior Years Findings:	\$0	\$2,430	\$8,833	\$6,079	\$17,342
Current Years Interest:	\$1,354	\$2,939	\$590	\$0	\$4,883
Total Cumulative Interest Calculated Through December 31, 2010:	\$1,354	\$5,369	\$9,423	\$6,079	\$22,225