



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

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# Final Audit Report

**Subject:**

**Audit of the Federal Employees Health Benefits  
Program Operations at GHI HMO Select, Inc.**

**Report No. 1C-X4-00-12-011**

**Date: September 13, 2012**

**-- CAUTION --**

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## AUDIT REPORT

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
GHI HMO Select, Inc.  
Contract Number CS 2655 - Plan Code X4  
New York, New York**

Report No. 1C-X4-00-12-011

Date: September 13, 2012



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

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## EXECUTIVE SUMMARY

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**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
GHI HMO Select, Inc.  
Contract Number CS 2655 - Plan Code X4  
New York, New York**

**Report No. 1C-X4-00-12-011**

**Date: September 13, 2012**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at GHI HMO Select, Inc. – plan code X4 (Plan). The audit covered contract years 2007, 2008, 2010, and 2011, and was conducted at the Plan’s office in New York, New York.

This report questions \$264,262 for inappropriate health benefit charges to the FEHBP in contract years 2007, 2008, 2010, and 2011. The questioned amount includes \$236,459 for defective pricing and \$27,803 due the FEHBP for lost investment income, calculated through August 31, 2012.

For contract year 2007, we determined that the FEHBP’s rates were overstated by \$76,994 due to defective pricing. The Plan did not properly credit the FEHBP for the Graduate Medical Expense (GME) charge. In addition, the Plan did not provide sufficient support to show that the FEHBP was not charged state premium taxes. Also, the Plan did not apply the highest SSSG discount to the FEHBP’s rates.

For contract year 2008, we determined that the FEHBP’s rates were overstated by \$49,541 due to defective pricing. The Plan did not properly credit the FEHBP for the GME charge. Also, the

Plan did not provide sufficient support to show that the FEHBP was not charged state premium taxes.

For contract years 2010 and 2011, we determined that the FEHBP's rates were overstated by \$82,712 and \$27,212, respectively, due to defective pricing. More specifically, the Plan did not properly credit the FEHBP for the GME charge.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$27,803 for lost investment income, calculated through August 31, 2012, on the defective pricing findings. In addition, we recommend that the contracting officer recover lost investment income starting September 1, 2012, 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 GHI HMO Select, Inc. – Plan code X4 (Plan). The audit covered contract years 2007, 2008, 2010, and 2011. The audit was conducted pursuant to the provisions of Contract CS 2655; 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.

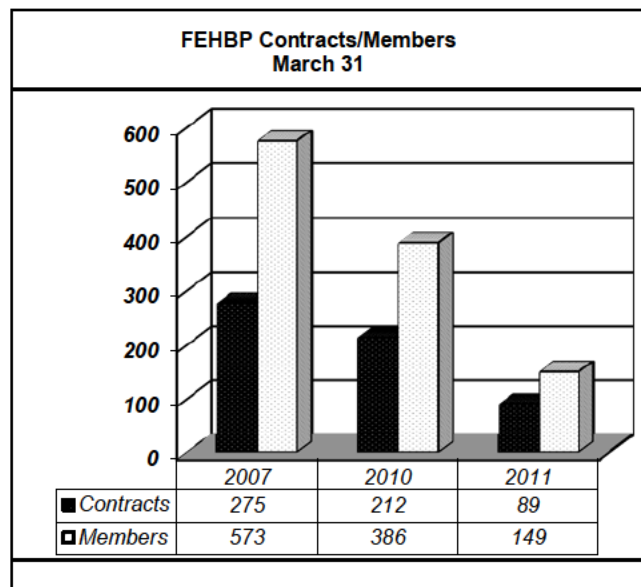
## **Background**

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<sup>1</sup>.



<sup>1</sup> The 2008 carrier data was not reported to OPM.

The Plan has participated in the FEHBP since 1993 and provides health benefits to FEHBP members throughout New York's Albany - Capital District and Hudson Valley areas. The last audit of the Plan conducted by our office was a rate reconciliation audit for contract year 2009. There were no issues identified in that audit.

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 preparation of this report and included, as appropriate, in the Appendix.

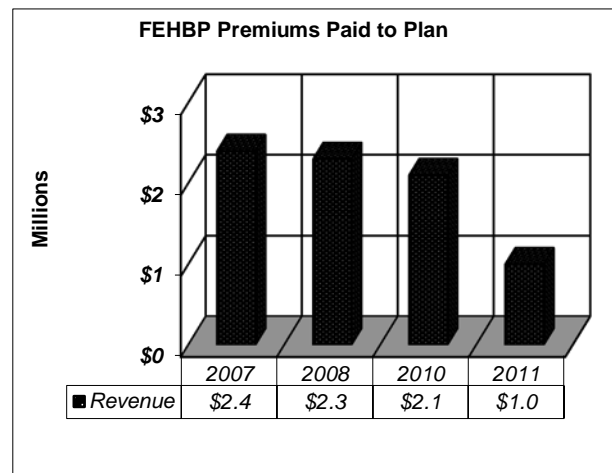
## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### 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 2007, 2008, 2010, and 2011. For these contract years, the FEHBP paid approximately \$7.8 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 New York, New York during December 2011. 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, 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 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**

**\$236,459**

The Certificates of Accurate Pricing the Plan signed for contract years 2007, 2008, 2010, and 2011 were defective. In accordance with Federal regulations, the FEHBP is therefore due a rate reduction for these years. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium adjustment totaling \$236,459 (see Exhibit A).

Carriers proposing rates to the 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. FEHBP regulations refer to a market price rate in conjunction with the rates offered to SSSGs. SSSGs are the Plan's two employer groups closest in size to the FEHBP. If it is found that the FEHBP was charged higher than the market price rate (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 rate.

#### **2007**

The Plan did not select any SSSGs for 2007. We selected [REDACTED] and [REDACTED] as the 2007 SSSGs. Our review of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount. [REDACTED] did not receive a discount. Per OPM's rating instructions, the FEHBP should be given at least the largest discount granted to an SSSG. The FEHBP did not receive a discount; therefore, we applied the [REDACTED] percent [REDACTED] discount to the FEHBP's audited line 5 rates.

OPM issued Carrier Letter 2003-16 in 2003 to all New York plans stating that certain surcharges and assessments imposed by the Health Care Reform Act of 2000 are unallowable charges to the FEHBP. Graduate Medical Expenses (GME) are one of the unallowable charges. We found that the Plan did not properly credit the FEHBP for the GME charge. The Plan calculated the per-member-per-month amount for the credit in the rate model but did not apply it appropriately to the FEHBP rate. Also, we determined that the FEHBP did not receive a state premium tax credit. OPM's rating instructions provide that the FEHBP should not be charged for state premium taxes. The Plan states it did not charge the FEHBP state premium taxes in 2007. However, the Plan could not provide sufficient support to show how the tax was credited. Therefore, we included a credit for state premium taxes in our audited FEHBP rate development.

A comparison of our audited line 5 rates to the Plan's proposed line 5 rates shows that the FEHBP high option was overcharged \$45,580, and the FEHBP's standard option was overcharged \$31,414, for a total overcharge of \$76,994 in contract year 2007 (see Exhibit B).

## **2008**

As in 2007, the Plan did not properly credit the FEHBP for the GME charge or credit the FEHBP for state premium taxes. Therefore, we included credits for both GME and state premium taxes in our audited FEHBP rate development. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$49,541 for contract year 2008 (see Exhibit B).

## **2010**

As in prior years, the Plan did not properly credit the FEHBP for the GME charge. Therefore, we included a credit for GME in our audited FEHBP rate development. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$82,712 for contract year 2010 (see Exhibit B).

## **2011**

As in prior years, the Plan did not properly credit the FEHBP for the GME charge. Therefore, we included a credit for GME in our audited FEHBP rate development. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$27,212 for contract year 2011 (see Exhibit B).

## **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$236,459 to the FEHBP for defective pricing in contract years 2007, 2008, 2010, and 2011.

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

The Plan agrees with our audit findings, with the exception of the 2007 [REDACTED] discount.

The Plan states that [REDACTED] received an estimated premium rate in 2007, which was lower than the filed and approved community rates. However, this difference between the estimated premium rates and the approved premium rates was "recouped" in the group's 2008 premium rates per the [REDACTED] rate development. Based on this information, [REDACTED] did not receive a [REDACTED] discount in 2007 and the Plan requests removal of this finding in the audit report.

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

In response to our draft report, the Plan did not provide the necessary documentation to demonstrate that the 2007 [REDACTED] discount was recouped in 2008. Based on the Plan's rate development, [REDACTED] did not have an adjustment to recoup the 2007 discount. As a result, our 2007 [REDACTED] discount of [REDACTED] percent remains.

## **2. Lost Investment Income**

**\$27,803**

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 in contract years 2007, 2008, 2010, and 2011. We determined that the FEHBP is due \$27,803 for lost investment income, calculated through August 31, 2012 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning September 1, 2012, until all defective pricing finding 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 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.

### **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$27,803 to the FEHBP for lost investment income for the period January 1, 2007, through August 31, 2012. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning September 1, 2012, until all defective pricing amounts have been returned to the FEHBP.

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

The Plan did not comment on this finding.

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### **Community-Rated Audits Group**

██████████, Auditor-In-Charge

██████████ Lead Auditor

██████████ Auditor

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██████████ Chief

██████████, Senior Team Leader

**GHI HMO Select, Inc. - Plan Code X4  
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2007	\$76,994
Contract Year 2008	\$49,541
Contract Year 2010	\$82,712
Contract Year 2011	<u>\$27,212</u>
Total Defective Pricing Questioned Costs	\$236,459

Lost Investment Income \$27,803

**Total Questioned Costs \$264,262**

**GHI HMO Select, Inc. - Plan Code X4  
Defective Pricing Questioned Costs**

**Contract Year 2007 - High Option**

	<u>Self</u>	<u>Family</u>	
Plan's Proposed Rates	█	█	
Audited Line 5 Rates	█	█	
Bi-weekly Overcharge	█	█	
To Annualize:			
March 31, 2007 Enrollment	█	█	
x 26 Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	█	█	
Amount Due FEHBP in 2007 - High Option			\$45,580

**Contract Year 2007 - Standard Option**

	<u>Self</u>	<u>Family</u>	
Plan's Reconciled Rates	█	█	
Audited Line 5 Rates	█	█	
Bi-weekly Overcharge	█	█	
To Annualize:			
March 31, 2007 Enrollment	█	█	
x 26 Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	█	█	
Amount Due FEHBP in 2007 - Standard Option			\$31,414

**Contract Year 2008**

	<u>Self</u>	<u>Family</u>	
Plan's Reconciled Rates	█	█	
Audited Line 5 Rates	█	█	
Bi-weekly Overcharge	█	█	
To Annualize:			
March 31, 2008 Enrollment	█	█	
x 26 Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	█	█	
Amount Due FEHBP in 2008			\$49,541

**GHI HMO Select, Inc. - Plan Code X4  
Defective Pricing Questioned Costs**

**Contract Year 2010**

	<u>Self</u>	<u>Family</u>	
Plan's Reconciled Rates Audited Line 5 Rates	■	■	
Bi-weekly Overcharge	■	■	
To Annualize: March 31, 2010 Enrollment x 26 Pay Periods	■ <u>26</u>	■ <u>26</u>	
Subtotal	■	■	
Amount Due FEHBP in 2010			\$82,712

**Contract Year 2011**

	<u>Self</u>	<u>Family</u>	
Plan's Reconciled Rates Audited Line 5 Rates	■	■	
Bi-weekly Overcharge	■	■	
To Annualize: March 31, 2011 Enrollment x 26 Pay Periods	■ <u>26</u>	■ <u>26</u>	
Subtotal	■	■	
Amount Due FEHBP in 2011			<u>\$27,212</u>

**Total Defective Pricing Questioned Costs** **\$236,459**



**GHI HMO Select, Inc. - Plan Code X4  
Lost Investment Income**

Year	2007	2008	2009	2010	2011	31-Aug-2012	Total
<b>Audit Findings:</b>							
Defective Pricing	\$76,994	\$49,541	\$0	\$82,712	\$27,212	\$0	\$236,459
Totals (per year):	\$76,994	\$49,541	\$0	\$82,712	\$27,212	\$0	\$236,459
Cumulative Totals:	\$76,994	\$126,535	\$126,535	\$209,247	\$236,459	\$236,459	\$236,459
Average Annual Interest Rate:	5.5000%	4.9375%	5.2500%	3.1875%	2.5625%	1.8750%	
Interest on Prior Years Findings:	\$0	\$3,802	\$6,643	\$4,033	\$5,362	\$2,956	\$22,796
Current Years Interest:	\$2,117	\$1,223	\$0	\$1,318	\$349	\$0	\$5,007
Total Cumulative Interest Through August 31, 2012	\$2,117	\$5,025	\$6,643	\$5,351	\$5,711	\$2,956	<b>\$27,803</b>



www.emblemhealth.com

55 Water Street, New York, New York 10041-8190

July 31, 2012

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[REDACTED]  
Chief Community-Rated Audits Group  
U.S. Office of Personnel Management  
Office of the Inspector General  
800 Cranberry Woods Drive, Suite 270  
Cranberry Township, Pennsylvania 16066

RE: Preliminary Audit Findings  
GHI HMO Plan Code X4  
Contract Number CS 2655

Dear [REDACTED]

Emblem Health is in agreement with the Office of Inspector General's audit findings for the GHI HMO Plan Code 6V, as referenced in the Executive Summary, Report No. IC-X4-00-12-010 issued on May 25, 2012, with the exception of the finding regarding the discount for [REDACTED] for 2007.

In regards to [REDACTED] the group received an estimated premium rate in 2007 which was lower than the filed, approved, community rates per the attached. However, this difference between the estimated premium rates and approved premium rates was "recouped" in the group's 2008 premium rates per [REDACTED] rate development in the attached. Based on this information, Sullivan ARC did not receive a [REDACTED] discount in their 2007 rates and we would request consideration of removal of this finding in the audit report.

Please feel free to contact me should you require any additional information in regards to this audit.

Sincerely,

[REDACTED]  
Senior Director, Actuarial Services