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 MVP Health Care – Central Region

Report No. 1C-M9-00-12-056

Date: April 1, 2013

-- CAUTION --

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

AUDIT REPORT

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
MVP Health Care – Central Region
Contract Number CS 2362 - Plan Code M9
Schenectady, New York

Report No. 1C-M9-00-12-056 **Date:** April 1, 2013

Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
MVP Health Care – Central Region
Contract Number CS 2362 - Plan Code M9
Schenectady, New York

Report No. 1C-M9-00-12-056 **Date:** April 1, 2013

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at MVP Health Care – Central Region (Plan). The audit covered contract years 2007 through 2010, and 2012. The audit was conducted at the Plan's office in Schenectady, New York.

This report questions $2,723,833 for inappropriate health benefit charges to the FEHBP in contract years 2007, 2008, and 2012. The questioned amount includes $2,291,168 for defective pricing and $432,665 for lost investment income. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rules and regulations for contract years 2009 and 2010.

For contract years 2007, 2008, and 2012, the Plan did not apply the correct similarly sized subscriber group (SSSG) discount to the FEHBP rates. In addition, in contract year 2007, the Plan did not fully credit the FEHBP rates for a graduate medical expense/bad debt and charity surcharge that was included in the community rates. Finally, in contract year 2012, the Plan inappropriately loaded the FEHBP rates for a Health Dollars benefit rider.

The Plan could not provide original documentation to support the rate development of one of the 2008 SSSGs, [redacted] Although we ultimately developed audited rates using alternative methods, the FEHBP contract requires the Plan to retain and make available all records supporting its rate submissions for a period of six years after the end of the contract term to which records relate.

Consistent with the FEHBP regulations and contract, the FEHBP is due $432,665 for lost investment income, calculated through March 31, 2013, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning April 1, 2013, 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 MVP Health Care - Central Region (Plan). The audit covered contract years 2007 through 2010, and 2012, and was conducted at the Plan's office in Schenectady, New York. The audit was conducted pursuant to the provisions of Contract CS 2362; 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.

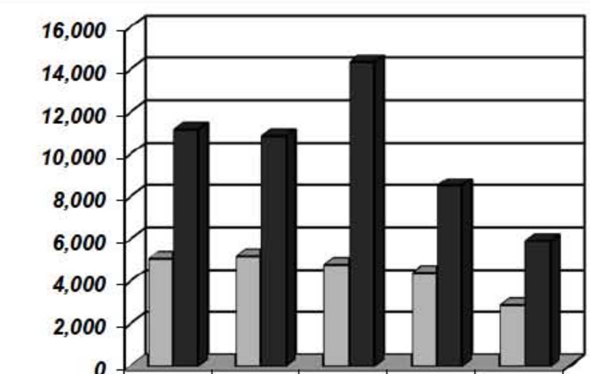
Background

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.

FEHBP Contracts/Members
March 31



	2007	2008	2009	2010	2012
Contracts	5,059	5,170	4,781	4,407	2,904
Members	11,149	10,850	14,339	8,513	5,919

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 1988 and provides health benefits to FEHBP members in Central New York, including Broome, Cayuga, Chenango, Cortland, Delaware, Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, Otsego, Tioga and Tompkins counties. The last audit of the Plan conducted by our office was a rate reconciliation audit for contract year 2011. There were no issues identified in that year.

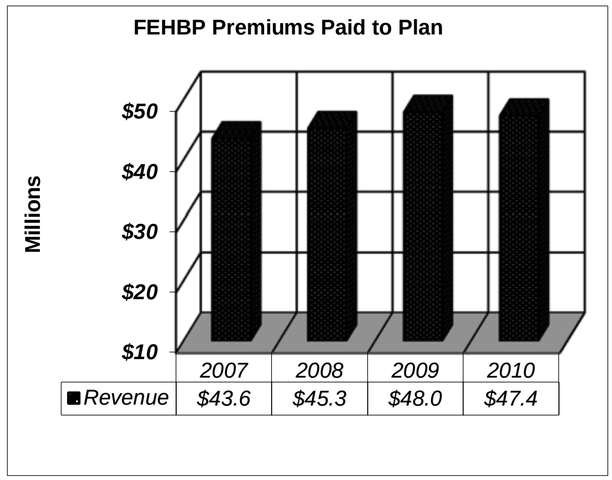
The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in preparation of this report and included, as appropriate, in the 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, 2009, 2010 and 2012. For contract years 2007 through 2010, the FEHBP paid approximately $184.3 million in premiums to the Plan, as shown on the chart above. The 2012 subscription income was not available at the time of this report.

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 Schenectady, New York during August 2012. Additional audit work was completed at our offices in Jacksonville, Florida; Washington, D.C.; 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. 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 RECOMMENDTIONS

Premium Rates

1. Defective Pricing **$2,291,168**

The Certificates of Accurate Pricing the Plan signed for contract years 2007, 2008 and 2012 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 due premium adjustments totaling $2,291,168 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM's rules and regulations in contract years 2009 and 2010.

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. SSSGs are the Plan's two employer groups closest in subscriber 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

We agree with the Plan's selection of [redacted] and [redacted] as SSSGs for contract year 2007. Our analysis shows that [redacted] received a [redacted] percent discount and [redacted] received a [redacted] percent discount. This discount was not applied to the FEHBP rates. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [redacted] percent discount to the FEHBP's rates.

[redacted] percent discount is due to the Plan using two years of claims experience to rate the group, where one of the experience periods (4/1/2004 – 3/31/2005) was used in the prior rating year for [redacted] This methodology was not used for any other group during the scope of the audit and thus was inconsistent with the Plan's underwriting practices. Using two years of claims experience data produces an incurred claim Per-Member-Per-Month (PMPM) cost of [redacted]. Using the Plan's consistent practice of the most recent one year of claims experience data produces an incurred claim PMPM cost of [redacted]. Accordingly, we recalculated [redacted] rates using the most recent year of claims data. In addition, the Plan incorrectly calculated the trend factor for [redacted] The Plan did not include the month of October 2005 when determining its trend factor of [redacted] We recalculated the trend factor by including the month of October 2005 and determined that the total trend factor should be [redacted]

In reviewing the FEHBP's rates, we noted that the Plan's graduate medical expense/bad debt charity (GME/BDC) credit calculation did not include a credit for retention, which was incorrectly charged to the FEHBP.

We calculated our audited FEHBP rates by applying the [redacted] percent [redacted] discount and correcting the GME/BDC credit calculation to include retention. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows the FEHBP was overcharged $1,654,279 in contract year 2007 (see Exhibit B).

2008

We agree with the Plan's selection of [redacted] and [redacted] as SSSGs for contract year 2008. Our analysis shows that [redacted] did not receive a discount; however, [redacted] received a [redacted] percent discount. This discount was not applied to the FEHBP rates. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [redacted] percent discount to the FEHBP's rates.

[redacted] percent discount is a result of the Plan's inability to provide adequate documentation to support the rate calculation, the community rates, and the graduate medical expense portion of the experience period claims used to develop [redacted] rates. In addition, [redacted] rates were based on estimates. We used alternative methods to arrive at our audited rates by using documentation found in our prior audit of the Plan.

We calculated the audited FEHBP rates by applying the [redacted] percent [redacted] discount. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows the FEHBP was overcharged $545,987 in contract year 2008 (see Exhibit B).

2012

We agree with the Plan's selection of [redacted] and [redacted] as SSSGs for contract year 2012. Our analysis shows that [redacted] did not receive a discount; however, [redacted] received a [redacted] percent discount. This discount was not applied to the FEHBP rates. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [redacted] percent discount to the FEHBP's rates.

[redacted] percent discount is due to the Plan erroneously excluding various miscellaneous or "other" claims from the experience period paid claims total. These claims were added back to the total paid claims amount used in our audited rates.

In reviewing the FEHBP's rates, we noted that the Plan included the cost of rider "MED 531L" in the FEHBP rates. The rider represents a $50 Health Dollar benefit offered to subscribers to spend on health, wellness and fitness programs. We reviewed the 2012 FEHBP brochure and determined that the Health Dollar benefit was listed in the Non-FEHBP benefits available to Plan members section of the brochure. As stated in the brochure, "the benefits in this section are not part of the FEHBP contract or premium". The inclusion of this rider inappropriately increased the FEHBP premium rates. We removed the loading from our audited FEHBP rate development.

We calculated the audited FEHBP rates by applying the [redacted] percent [redacted] discount and removing the MED 531L rider. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows the FEHBP was overcharged $90,902 in contract year 2012 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan has no issues or concerns with these findings.

Recommendation 1

We recommend that the contracting officer require the Plan to return $2,291,168 to the FEHBP for defective pricing in contract years 2007, 2008, and 2012. We also recommend that the contracting officer require the Plan to exclude the Health Dollar loading in the FEHBP rate development going forward.

2. Lost Investment Income $432,665

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, 2008, and 2012. We determined that the FEHBP is due $432,665 for lost investment income, calculated through March 31, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning April 1, 2013, 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 was 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.

<u>Plan's Comments (see Appendix)</u>:

The Plan has no issues or concerns with the lost investment income finding.

<u>Recommendation 2</u>

We recommend that the contracting officer require the Plan to return $432,665 to the FEHBP for lost investment income, calculated through March 31, 2013. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning April 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

3. <u>Record Retention</u>

The Plan did not comply with the record retention clause of its FEHBP contract. After several requests, the Plan did not provide sufficient and appropriate documentation to support the 2008 [redacted] rate development. Although we ultimately developed audited rates using alternative methods, the FEHBP contract requires the Plan to retain and make available <u>all</u> records supporting its rate submissions for a period of six years after the end of the contract term to which the records relate.

<u>Plan's Comments (see Appendix)</u>:

The Plan has no issues or concerns with the record retention finding.

<u>Recommendation 3</u>

We recommend that the contracting officer assess the maximum penalty allowed in the contract between OPM and the Plan for the violation of the record retention clause.

In addition, we recommend that the contracting officer inform the Plan that:

- OPM expects it to fully comply with the record retention provision of the contract and all applicable regulations;

- it should maintain copies of all pertinent rating documents that show the factors and calculations the Plan uses in developing the actual rates for the FEHBP and the groups closest in size to the FEHBP for each unaudited year; and

- the applicable community-rated performance factors described in the FEHBAR 1609.7101-2 will be enforced if information requested during audits is not provided.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted], Auditor-in-Charge

[redacted], Auditor

[redacted], Auditor

[redacted]., Chief

[redacted], Senior Team Leader

Exhibit A

MVP Health Care - Central Region
Summary of Questioned Costs

Defective Pricing Questioned Costs:		
Contract Year 2007	$1,654,279	
Contract Year 2008	$545,987	
Contract Year 2012	$90,902	
Total Defective Pricing Questioned Costs:		$2,291,168
Lost Investment Income:		$432,665
Total Questioned Costs:		**$2,723,833**

MVP Health Care - Central Region
Defective Pricing Questioned Costs

2007

High Option	Self	Family		
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]		
FEHBP Line 5 - Audited Rate				
Biweekly Overcharge	[redacted]	[redacted]		
To Annualize Overcharge:				
3/31/07 enrollment	[redacted]	[redacted]		
Pay Periods	26	26		
	[redacted]	[redacted]		
Subtotal			**$1,459,860**	
Standard Option	Self	Family		
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]		
FEHBP Line 5 - Audited Rate				
Biweekly Overcharge	[redacted]	[redacted]		
To Annualize Overcharge:				
3/31/07 enrollment	[redacted]	[redacted]		
Pay Periods	26	26		
	[redacted]	[redacted]		
Subtotal			**$194,419**	
Total 2007 Questioned Costs				**$1,654,279**

MVP Health Care - Central Region
Defective Pricing Questioned Costs

2008

	Self	Family		
High Option	Self	Family		
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]		
FEHBP Line 5 - Audited Rate	[redacted]	[redacted]		
Biweekly Overcharge	[redacted]	[redacted]		
To Annualize Overcharge:				
3/31/08 enrollment	[redacted]	[redacted]		
Pay Periods	26	26		
	[redacted]	[redacted]		
Subtotal			**$485,013**	
Standard Option	Self	Family		
FEHBP Line 5 - Reconciled Rate	$[redacted]	[redacted]		
FEHBP Line 5 - Audited Rate	[redacted]	[redacted]		
Biweekly Overcharge	[redacted]	[redacted]		
To Annualize Overcharge:				
3/31/08 enrollment	[redacted]	[redacted]		
Pay Periods	26	26		
	[redacted]	$[redacted]		
Subtotal			**$60,974**	
Total 2008 Questioned Costs				**$545,987**

MVP Health Care - Central Region
Defective Pricing Questioned Costs

2012

High Option	Self	Family		
FEHBP Line 5 - Reconciled Rate FEHBP Line 5 - Audited Rate	[redacted]	[redacted]		
Biweekly Overcharge	[redacted]	[redacted]		
To Annualize Overcharge:				
3/31/12 enrollment	[redacted]	[redacted]		
Pay Periods	26	26		
	[redacted]	[redacted]		
Subtotal			**$79,224**	
Standard Option	Self	Family		
FEHBP Line 5 - Reconciled Rate FEHBP Line 5 - Audited Rate	[redacted]	[redacted]		
Biweekly Overcharge	[redacted]	[redacted]		
To Annualize Overcharge:				
3/31/12 enrollment	[redacted]	[redacted]		
Pay Periods	26	26		
	[redacted]	[redacted]		
Subtotal			**$11,678**	
Total 2012 Questioned Costs				**$90,902**
Total Defective Pricing Questioned Costs:				**$2,291,168**

Exhibit C

MVP Health Care - Central Region
Lost Investment Income

Year	2007	2008	2009	2010	2011	2012	As of March 31, 2013	Total
Audit Findings:								
1. Defective Pricing	$1,654,279	$545,987	$0	$0	$0	$90,902	$0	$2,291,168
Totals (per year):	$1,654,279	$545,987	$0	$0	$0	$90,902	$0	$2,291,168
Cumulative Totals:	$1,654,279	$2,200,266	$2,200,266	$2,200,266	$2,200,266	$2,291,168	$2,291,168	$2,291,168
Avg. Interest Rate (per year):	5.500%	4.938%	5.250%	3.188%	2.563%	1.875%	1.375%	
Interest on Prior Years Findings:	$0	$81,680	$115,514	$70,133	$56,382	$41,255	$7,877	$372,841
Current Years Interest:	$45,493	$13,479	$0	$0	$0	$852	$0	$59,824
Total Cumulative Interest Calculated Through March 31, 2013:	$45,493	$95,159	$115,514	$70,133	$56,382	$42,107	$7,877	**$432,665**

February 25, 2013

[redacted]. VIA e-mail
U.S. Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Dr, Suite 270
Cranberry Township, PA 16066

Re: MVP Health Plan, Inc. Audits Retrospective/Reconciliation Rate Audit
M9: 2007, 2008, 2009, 2010, 2012
Draft Report dated 12/14/2012

Dear Mr. [redacted]

Thank you for your draft audit report. MVP has no issues or concerns with this report --- *DELETED BY OIG, NOT RELEVANT TO THE REPORT*--. As recommended, we will exclude the loading for the Health Dollars from our 2013 reconciliation and future rates accordingly.

Sincerely,

[redacted]

[redacted], F.S.A., M.A.A.A.
Associate Director of Actuarial
MVP Health Plan, Inc.

Cc: David W. Oliker, President & CEO
[redacted] OPM