



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 – Eastern Region

Report No. 1C-GA-00-12-063

Date: February 21, 2013

-- CAUTION --

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AUDIT REPORT

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

Report No. 1C-GA-00-12-063

Date: February 21, 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 – Eastern Region
Contract Number CS 2362 - Plan Code GA
Schenectady, New York**

Report No. 1C-GA-00-12-063

Date: February 21, 2013

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at MVP Health Care – Eastern Region (Plan). The audit covered contract years 2008 through 2010, and 2012, and was conducted at the Plan’s office in Schenectady, New York. Based on our audit of contract years 2008 through 2010, and 2012, we have no questioned costs. However, we found the Plan applied an inappropriate loading to the FEHBP rates in contract year 2012.

In contract year 2012, we found the Plan applied a Health Dollars benefit loading to the FEHBP rates. The Health Dollars benefit is used by members to purchase health and wellness programs to promote healthy living. Because it is not an FEHBP contracted benefit and cannot be charged to the FEHBP, we disallowed the loading. We found that by removing the disallowed loading, there was no material cost impact to the 2012 FEHBP rates.

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 2008 through 2010.

CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND.....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	5
1. Premium Rate Review.....	5
2. Inappropriate Benefit Loading	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT	6
Appendix - (MVP Health Care – Eastern Region’s November 19, 2012 response to the Draft Report)	

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at MVP Health Care – Eastern Region (Plan). The audit covered contract years 2008 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.

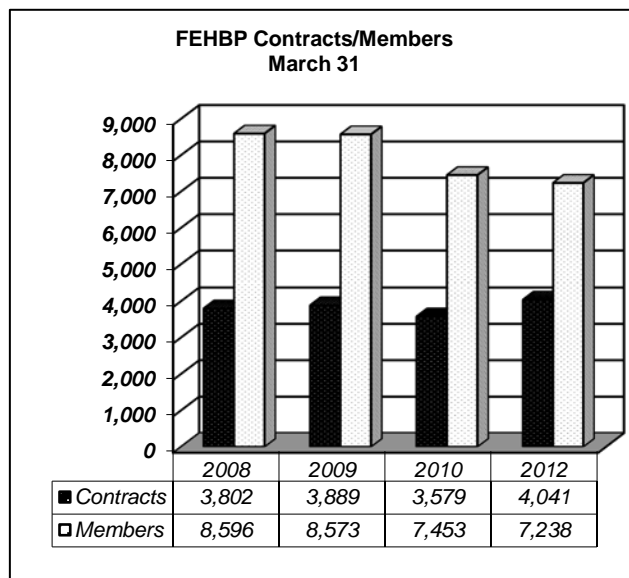
Background

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.

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 the Upstate New York's Eastern Region area. The last full scope audit of the Plan conducted by our office was in 2007 and covered contract years 2004 through 2007. All issues from that audit have been resolved. In addition, we conducted a rate reconciliation audit for contract year 2011 and found the rates charged to the FEHBP were appropriate.

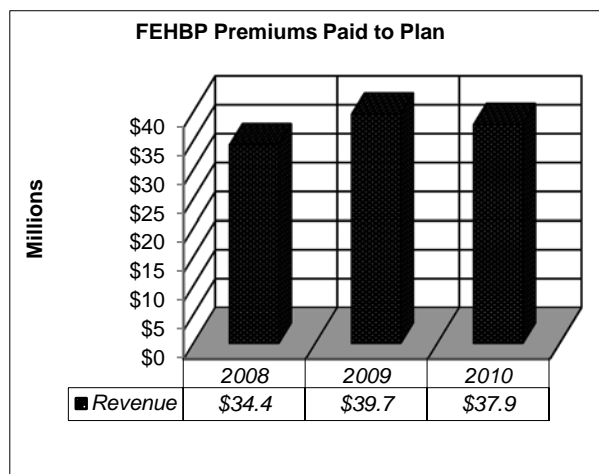
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2008 through 2010, and 2012. For the 2008 through 2010 contract years, the FEHBP paid approximately \$112 million in premiums to the Plan, as shown on the chart above. Contract year 2012 premiums were unavailable 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 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 RECOMMENDATIONS

1. Premium Rate Review

Based on our audit, we have accepted the Plan's rating of the FEHBP for contract years 2008 through 2010, and 2012, and have no questioned costs.

2. Inappropriate Benefit Loading

In contract year 2012, the Plan included the cost of rider "MED 531L" in the FEHBP premium 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 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. However, the removal did not have a material cost impact to the FEHBP rates.

Plan's Comments (see Appendix):

The Plan agrees to exclude the Health Dollars loading from their 2013 FEHBP reconciliation, and from FEHBP rate developments going forward.

Recommendation 1

We recommend that the contracting officer require the Plan to exclude the Health Dollar loading in the FEHBP rate developments going forward.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Lead Auditor

██████████, Auditor

██████████., Chief

██████████, Senior Team Leader

APPENDIX

November 19, 2012

██████████
U.S. Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Dr, Suite 270
Cranberry Township, PA 16066

VIA e-mail

Re: MVP Health Plan, Inc. Audits Retrospective/Reconciliation Rate Audit
GA: 2008, 2009, 2010, 2012

Dear ██████████

Thank you for your draft audit report. MVP has no issues or concerns with this report. As recommended, we will exclude the loading for the Health Dollars from our 2013 reconciliation and future rates accordingly.

Sincerely,

██████████
Associate Director of Actuarial
MVP Health Plan, Inc.

Cc: David W. Oliker, President & CEO
██████████ OPM