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 Univera Healthcare

Report No. **1C-Q8-00-12-057**

Date: March 11, 2013

-- CAUTION --

AUDIT REPORT

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Univera Healthcare
Contract Number CS 1891 - Plan Code Q8
Rochester, New York

Report No. 1C-Q8-00-12-057 **Date:** March 11, 2013

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for Audits

-- CAUTION --

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EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Univera Healthcare
Contract Number CS 1891 - Plan Code Q8
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The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Univera Healthcare (Plan). The audit covered contract years 2009 through 2011, and was conducted at the Plan's office in Rochester, New York.

We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rating instructions for contract years 2010 and 2011.

This report questions $578,157 for inappropriate health benefit charges to the FEHBP in contract year 2009. The questioned amount includes $523,318 for defective pricing and $54,839 due the FEHBP for lost investment income, calculated through February 28, 2013.

For contract year 2009, we determined that the FEHBP's rates were overstated by $523,318 due to defective pricing. More specifically, the Plan did not apply the correct SSSG discount to the FEHBP rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due $54,839 for lost investment income, calculated through February 28, 2013, on the defective pricing finding. In addition, we recommend that the contracting officer recover lost investment income starting March 1, 2013, until the defective pricing amount has been returned to the FEHBP.

CONTENTS

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Univera Healthcare (Plan). The audit covered contract years 2009 through 2011. The audit was conducted pursuant to the provisions of Contract CS 1891; 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.

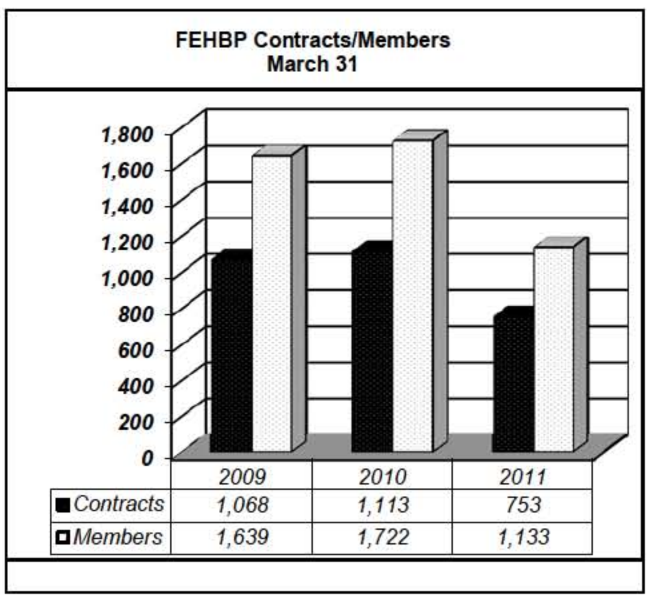
Background

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 1980 and provides health benefits to FEHBP members in Western New York. The last audit of the Plan conducted by our office was a full scope audit of contract years 2004, 2005, 2007, and 2008. For that audit we questioned $3,982,122, including $354,140 for related lost investment income for defective pricing in 2005, 2007, and 2008. All matters related to that audit have been resolved.

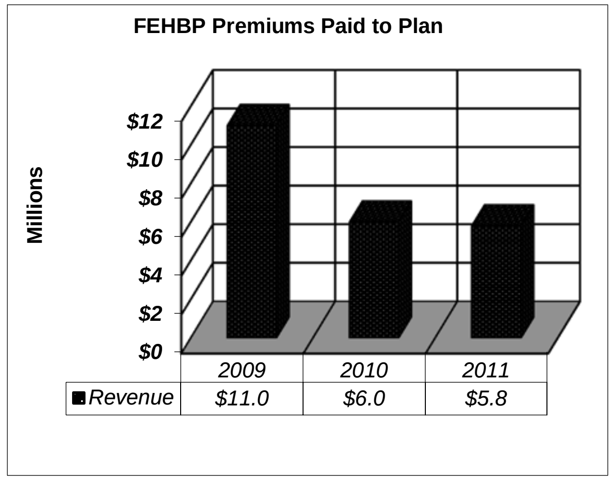
The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in preparation of this report and included, as appropriate, in the 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 2009 through 2011. For these contract years, the FEHBP paid approximately $22.8 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 conducted during May 2012 in Rochester, New York, and additional audit work was completed at our offices located in Cranberry Township, Pennsylvania, 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 **$523,318**

The Certificate of Accurate Pricing Univera Healthcare (Plan) signed for contract year 2009 was defective. In accordance with Federal regulations, the Federal Employees Health Benefits Program (FEHBP) is therefore due a rate reduction for this year. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium adjustment totaling $523,318 (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 2010 and 2011.

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. FEHBP regulations refer to a market price rate in conjunction with the rates offered to similarly sized subscriber groups (SSSG). 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.

2009

The Plan selected [redacted] and [redacted] as SSSGs for contract year 2009. We agree with the selection of [redacted], but disagree with the selection of [redacted]. [redacted] terminated its contract with the Plan in 2009, and consequently was not eligible to be an SSSG. Therefore, we selected [redacted] as the other SSSG.

Our analysis of the rates charged to the SSSGs shows that [redacted] received a [redacted] percent discount and [redacted] received a [redacted] percent discount. The FEHBP did not receive a discount. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we recalculated the FEHBP rates using the [redacted] percent discount given to [redacted] A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged $523,318 in contract year 2009 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan agrees with the selection of [redacted] as an SSSG. The Plan also agrees that the FEHBP did not receive a discount for contract year 2009. However, the Plan disagrees that [redacted] received a [redacted] percent discount.

The Plan asserts that [redacted] received a [redacted] percent discount for contract year 2009. The Plan cites the difference between the composite rate change of [redacted] percent and the modified composite rate change of [redacted] percent as the only concession given to the group. The Plan indicates their calculated discount of [redacted] percent should have been applied to the FEHBP rates. The Plan believes the FEHBP rates should be reduced in the amount of $190,296 for contract year 2009.

OIG's Response to Plan's Comments:

We disagree with the Plan that the only concession given to [redacted] was the difference between the composite rate change of [redacted] percent and the modified composite rate change of [redacted] percent.

In addition to the above concession, we found that the Plan applied a contract mix factor of [redacted] to [redacted] rate development. The Plan indicated that the contract mix factor was not used in calculating a rate change. They explained the purpose of the factor is to account for shifts in plan enrollment, which helps illustrate how the experience period revenue shifts to projected revenue for the rate adequacy. We view this adjustment as a discount and removed it from our [redacted] audited rates. In order to maintain consistency, contract mix factors were also removed for all other groups, including the FEHBP, for all contract years audited.

Finally, we found that the Plan discounted [redacted] administration and retention charges. The Plan charged [redacted] for administrative and other retention costs; however, we calculated administrative and other retention costs of [redacted].

After removing these concessions, we continue to maintain that [redacted] received a [redacted] percent discount.

Recommendation 1

We recommend that the contracting officer require the Plan to return $523,318 to the FEHBP for defective pricing in contract year 2009 (see Exhibit B).

2. Lost Investment Income **$54,839**

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 year 2009. We determined that the FEHBP is due $54,839 for lost investment income, calculated through February 28, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning March 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

Federal Employees Health Benefits Acquisition Regulation 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 (see Appendix):

The Plan agrees that the FEHBP is entitled to lost investment income on any overpayments due to the FEHBP. The Plan states they calculated a different amount of overpayment which the lost investment income calculation should be based on, and indicates the FEHBP is due lost investment income only for that amount of the overpayment.

OIG's Response to Plan's Comments

Our calculation of lost investment income is based on our defective pricing finding.

Recommendation 2

We recommend that the contracting officer require the Plan to return $54,839 to the FEHBP for lost investment income for the period January 1, 2009, through February 28, 2013. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning March 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted], Auditor-in-Charge

[redacted], Lead Auditor

[redacted]., Chief

[redacted], Senior Team Leader

Exhibit A

Univera Healthcare
Summary of Questioned Costs

Defective Pricing Questioned Costs		
Contract Year 2009	$523,318	
Total Defective Pricing Questioned Costs		**$523,318**
Lost Investment Income		**$54,839**
Total Questioned Costs		**$578,157**

Exhibit B

Univera Healthcare
Defective Pricing Questioned Costs

2009

	Self	Family	
FEHBP Line 5 - Reconciled Rate FEHBP Line 5 - Audited Rate	[redacted]	[redacted]	
Bi-weekly Overcharge	[redacted]	[redacted]	
To Annualize Overcharge:			
March 31, 2009 Enrollment	[redacted]	[redacted]	
x 26 Pay Periods	26	26	
Subtotal	[redacted]	[redacted]	
Amount due FEHBP in 2009			**$523,318**
Total Defective Pricing Questioned Costs			**$523,318**

Exhibit C

Univera Healthcare
Lost Investment Income

Year Audit Findings:	2009	2010	2011	2012	Through February 28, 2013	Total
1. Defective Pricing	$523,318	$0	$0	$0	$0	$523,318
Totals (per year):	$523,318	$0	$0	$0	$0	$523,318
Cumulative Totals:	$523,318	$523,318	$523,318	$523,318	$523,318	
Avg. Interest Rate (per year):	5.2500%	3.1875%	2.5625%	1.8750%	1.3750%	
Interest on Prior Years Findings:	$0	$16,681	$13,410	$9,812	$1,199	$41,102
Current Years Interest:	$13,737	$0	$0	$0	$0	$13,737
Total Cumulative Interest Calculated Through February 28, 2013:	$13,737	$16,681	$13,410	$9,812	$1,199	**$54,839**

Response to
Audit of Univera Healthcare Report No. 1C-Q8-00-12-057
dated October 23, 2012

2009

- We agree with the selection of [redacted] as the SSSG.
- We agree that no concession (discount) was provided to the FEHBP plan
- We disagree that [redacted] received a [redacted]% concession as you noted
- We disagree that the amount due is $523,318
- We find that [redacted] received a concession of [redacted]%
- We find the amount due is $190,296

Per discussions with [redacted] at the time of the on-site audit, we provided the underwriting Rate Adequacy reports for the SSSGs. These Rate Adequacy reports show concessions on the initial page as "Modified Composite Percent Rate Change" versus "Composite Rate Change". If no "Modified Composite Percent Rate Change" is represented, then no concession was given.

Included is the Rate Adequacy for [redacted] provided during the audit. Our Composite Rate Change was +[redacted]%. The Modified Composite Percent Rate Change was +[redacted]%. The difference is the [redacted]%. We have no documentation of further concession.

On the attached amended version of your Exhibit B, I have recalculated the amount due FEHBP in 2009 as **$190,296**.

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Deleted by OIG – Not Relevant to Final Report

Lost Investment Income recalculation

The draft report notes lost investment income as $77,364. With amounts due, we are estimating lost investment income at **$19,568**.

Total requested by OPM - $1,557,497
Total estimated by Univera Healthcare - $242,774