



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

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# Final Audit Report

Subject:

## AUDIT OF GROUP HEALTH INCORPORATED NEW YORK, NEW YORK

Report No. 1D-80-00-10-046

Date: July 27, 2011

--CAUTION--

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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  
Experience-Rated Health Maintenance Organization

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Group Health Incorporated  
Contract CS 1056      Plan Code 80  
New York, New York

REPORT NO. 1D-80-00-10-046

DATE: 7/27/11

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser  
Assistant Inspector General  
for Audits



Office of the  
Inspector General

## UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

### EXECUTIVE SUMMARY

Federal Employees Health Benefits Program  
Experience-Rated Health Maintenance Organization

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Group Health Incorporated  
Contract CS 1056      Plan Codes 80  
New York, New York

REPORT NO. 1D-80-00-10-046

DATE: 7/27/11

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Incorporated (Plan) questions \$3,610,055 in health benefit charges and \$16,244 in administrative expenses. The Plan agreed (*A*) with these questioned charges. Lost investment income (LII) on the questioned charges amounts to \$63,893.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits, administrative expenses, and statutory reserve payments from 2004 through 2009 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2004 through 2009.

The audit results are summarized as follows:

## **MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

- **Pharmacy Drug Rebates (A)** **\$2,864,447**

The Plan had not returned pharmacy drug rebates of \$2,788,625 to the FEHBP as of December 31, 2009. Subsequent to this date, the Plan returned these questioned drug rebates to the FEHBP, more than 30 days after receipt, through various letter of credit account (LOCA) adjustments from January 2010 through January 2011. As a result of this finding, the Plan also returned LII of \$75,822 to the FEHBP calculated on the drug rebates that were returned untimely.

- **Unsupported Settlement Charges (A)** **\$598,622**

The Plan could not provide documentation to support settlement charges of \$457,073 to the FEHBP. These charges were reported on the 2004 Annual Accounting Statement. As a result of this finding, the Plan returned \$598,622 to the FEHBP, consisting of \$457,073 for the unsupported settlement charges and \$141,549 for LII on these charges.

- **Uncashed Health Benefit Checks (A)** **\$146,986**

The Plan had not returned uncashed health benefit checks of \$122,892 to the FEHBP as of December 31, 2009. These uncashed checks were issued by the Plan from 2002 through 2007. While preparing for our audit, the Plan returned these questioned uncashed checks to the FEHBP via LOCA adjustment on June 14, 2010. As a result of this finding, the Plan also returned LII of \$24,094 to the FEHBP calculated on the uncashed checks that were returned untimely to the FEHBP.

## **ADMINISTRATIVE EXPENSES**

- **Pension Costs (A)** **\$16,244**

The Plan overcharged the FEHBP \$16,244 (net) for pension costs. Specifically, the Plan overcharged the FEHBP \$566,301 in 2006, 2008 and 2009, and undercharged the FEHBP \$550,057 in 2004, 2005 and 2007.

## **STATUTORY RESERVE PAYMENTS**

The audit disclosed no findings pertaining to statutory reserve payments. The Plan calculated and charged statutory reserve payments to the FEHBP in accordance with Contract CS 1056 and applicable laws and regulations.

## **CASH MANAGEMENT**

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1056 and applicable laws and regulations, except for the findings pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

## **LOST INVESTMENT INCOME ON AUDIT FINDINGS**

As a result of the audit findings presented in this audit report, the FEHBP is due LII of **\$63,893**, calculated through June 30, 2011.

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# **I. INTRODUCTION AND BACKGROUND**

## **INTRODUCTION**

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Incorporated (Plan). The Plan is located in New York, New York.

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 (FEHB) 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. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.<sup>1</sup> Enrollment is open to all federal employees and annuitants that live or work in the Plan's service area, which includes New York and the surrounding counties in northern New Jersey.

The Plan's contract (CS 1056) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses which have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Plan's management. Also, management of the Plan is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of the Plan (Report No. 1D-80-00-04-058, dated June 20, 2005) for contract years 1999 through 2003 were satisfactorily resolved.

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<sup>1</sup> Members of an experience-rated HMO have the option of using a designated network of providers or using non-network providers. A member's choice in selecting one healthcare provider over another has monetary and medical implications. For example, if a member chooses a non-network provider, the member will pay a substantial portion of the charges and benefits available may be less comprehensive.

The results of this audit were provided to the Plan in written audit inquiries (findings); were discussed with Plan officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated November 22, 2010. The Plan's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report. Also, additional documentation provided by the Plan on various dates through June 29, 2011 was considered in preparing our final report.

## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **OBJECTIVES**

The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

#### Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

#### Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

#### Statutory Reserve Payments

- To determine whether the Plan charged statutory reserve payments to the FEHBP in accordance with the contract and federal regulations.

#### Cash Management

- To determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

### **SCOPE**

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

We reviewed the Plan's Annual Accounting Statements for contract years 2004 through 2009. During this period, the Plan paid approximately \$1.1 billion in health benefit charges and \$82 million in administrative expenses (See Figure 1 and Schedule A). The Plan also made approximately \$12 million in statutory reserve payments (See Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, program integrity recoveries, uncashed checks, and pharmacy drug rebates), administrative expenses, statutory reserve payments, and cash management for contract years 2004 through 2009.

In planning and conducting our audit, we obtained an understanding of the Plan’s internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan’s internal control structure and its operation, except for the processing of pharmacy drug rebates (see the audit finding for “Pharmacy Drug Rebates” (A1) on pages 6 through 8).

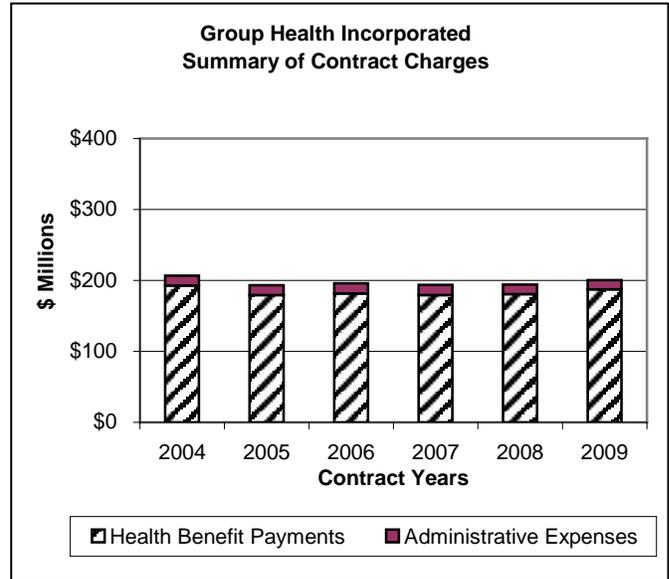


Figure 1 – Contract Charges

However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various systems involved. However, while utilizing the computer-generated data during our audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data available was sufficient to achieve our audit objectives.

The audit was performed at the Plan’s office in New York, New York from July 12 through July 23, 2010 and August 16 through August 27, 2010. Audit fieldwork was also performed at

our offices in Washington, D.C. and Jacksonville, Florida. Throughout the audit process, we encountered numerous instances where the Plan responded untimely, or initially provided incomplete responses, to various requests for supporting documentation. As a result, completion of our audit work and issuance of our draft and final reports were delayed.

## **METHODOLOGY**

We obtained an understanding of the internal controls over the Plan's financial, cost accounting, and cash management systems by inquiry of Plan officials.

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed health benefit refunds, subrogation recoveries, and program integrity recoveries of \$2,260,459 (from a universe of \$5,318,346); all uncashed check write-offs, totaling \$2,730,809; all quarterly pharmacy drug rebates, totaling \$11,878,553; and all settlement charges, totaling \$457,073, to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2004 through 2009. Specifically, we reviewed administrative expenses relating to pension, post-retirement, executive compensation, behavioral and disease management, and lobbying. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges. The results of the testing were not projected to the universe of administrative expenses.

We reviewed the statutory reserve payments charged to the FEHBP for contract years 2004 through 2009. We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1056 and applicable laws and regulations.

### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

##### **1. Pharmacy Drug Rebates** **\$2,864,447**

The Plan had not returned pharmacy drug rebates of \$2,788,625 to the FEHBP as of December 31, 2009. Subsequent to this date, the Plan returned these questioned drug rebates to the FEHBP, more than 30 days after receipt, through various letter of credit account (LOCA) adjustments from January 2010 through January 2011. As a result of this finding, the Plan also returned lost investment income (LII) of \$75,822 to the FEHBP calculated on the drug rebates that were returned untimely.

48 CFR 31.201-5 states, “The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.”

Contract CS 1056, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries . . . must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier.” Since the Plan did not have a dedicated working capital or investment account, the Plan had 30 days to return the pharmacy drug rebates to the LOCA before the funds were subject to LII.

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

Prior to 2009, the Plan’s pharmacy drug claims were processed by Express Scripts (ESI). The Plan received quarterly pharmacy drug rebates from ESI. During the period 2004 through 2009, the quarterly ESI drug rebate receipts totaled \$14,119,987 for the FEHBP. We selected and reviewed all of these ESI drug rebates for the purpose of determining if the Plan promptly returned these funds to the FEHBP. We noted the following exception:

- Although the ESI drug rebate receipts totaled \$1,324,594 for the FEHBP in 2009, the Plan had only returned \$563,829 of this amount to the FEHBP as of December 31, 2009. As a result of our finding, the Plan returned the remaining 2009 ESI drug rebates, totaling \$760,765, to the LOCA on January 24, 2011, more than one year after receipt.

Starting in 2009, the pharmacy drug claims and rebates were processed internally by Emblem Health, which is the parent company of GHI. The Plan refers to these drug rebates as “Online Claims Adjudication Program” (OCAP) rebates. In 2009, the OCAP drug rebate receipts totaled \$2,027,860 for the FEHBP. We selected and reviewed all of these OCAP drug rebates for the purpose of determining if the Plan promptly returned these funds to the FEHBP. We noted the following exception:

- As of December 31, 2009, the Plan had not returned these OCAP drug rebates to the FEHBP. Subsequent to this date, the Plan returned \$1,571,282 of these questioned drug rebates to the FEHBP via LOCA adjustment on January 5, 2010. However, since the Plan returned these questioned drug rebates of \$1,571,282 to the LOCA more than 30 days after receipt (i.e., from 36 to 279 days after receipt) and after receiving our notification letter and standard audit request (dated November 13, 2009), we are continuing to question this amount as a monetary finding. Also, the Plan returned the remaining 2009 OCAP drug rebates, totaling \$456,578, to the LOCA on June 30, 2010, more than six months after receipt.

As a result of this finding, the Plan calculated and returned LII of \$75,822 to the FEHBP since these questioned drug rebates were returned untimely to the LOCA. We reviewed and accepted the Plan’s LII calculation and verified the return of the LII to the LOCA (i.e., \$3,176 on January 24, 2011 and \$72,646 on May 9, 2011).

In total, we are questioning \$2,864,447, consisting of \$2,788,625 for pharmacy drug rebates (i.e., \$760,765 for ESI drug rebates and \$2,027,860 for OCAP drug rebates) and \$75,822 for LII on these questioned drug rebates.

**Plan’s Response:**

The Plan agrees with the finding that pharmacy drug rebates of \$2,788,625 were not returned to the FEHBP as of December 31, 2009.

**OIG Comments:**

After reviewing the Plan’s response and additional documentation, we revised the questioned amount from the draft report to \$2,864,447. Based on the Plan’s response and additional documentation, we determined that the Plan agrees with our revised questioned amount. As part of our review, we verified that the Plan returned this questioned amount of \$2,864,447 to the FEHBP, consisting of \$2,788,625 for pharmacy drug rebates (\$760,765 for ESI drug rebates plus \$2,027,860 for OCAP drug rebates) and \$75,822 for LII.

**Recommendation 1**

Since we verified that the Plan returned the questioned pharmacy drug rebates of \$2,788,625 to the FEHBP, no further action is required for this questioned amount.

## **Recommendation 2**

Since we verified that the Plan returned \$75,822 to the FEHBP for LII on the questioned pharmacy drug rebates, no further action is required for this LII amount.

## **Recommendation 3**

We recommend that the contracting officer instruct the Plan to implement corrective actions to ensure that pharmacy drug rebates are timely returned to the LOCA.

### **2. Unsupported Settlement Charges **\$598,622****

The Plan could not provide documentation to support settlement charges of \$457,073 to the FEHBP. These charges were reported on the 2004 Annual Accounting Statement. As a result of this finding, the Plan returned \$598,622 to the FEHBP, consisting of \$457,073 for the unsupported settlement charges and \$141,549 for LII on these charges.

Contract CS 1056, Part III, Section 3.2(b) (1) states, “The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable. In addition, the Carrier must: (i) on request, document and make available accounting support for the cost to justify that the cost is actual, reasonable and necessary . . . .” In addition, Part III, section 3.8 states, “the Carrier will retain and make available all records applicable to a contract term . . . .”

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . until the amount is paid.”

The Plan reported settlement charges of \$457,073 on the 2004 Annual Accounting Statement. The Plan could not provide documentation or an explanation to support these charges. Therefore, we could not determine if these costs were actual, allowable, reasonable, and necessary charges to the FEHBP.

As a result, we are questioning \$598,622, consisting of \$457,073 for the unsupported settlement charges and \$141,549 for LII on these charges. After responding to our draft report, the Plan returned these unsupported settlement charges of \$457,073 to the LOCA on January 24, 2011. The Plan also returned the questioned LII of \$141,549 to the LOCA (i.e., \$76,811 on January 24, 2011 and \$64,738 on May 9, 2011).

### **Plan’s Response:**

The Plan agrees with the questioned unsupported settlement charges.

**OIG Comments:**

After reviewing the Plan’s response and additional documentation, we revised the questioned amount from the draft report to \$598,622. Based on the Plan’s response and additional documentation, we determined that the Plan agrees with our revised questioned amount. As part of our review, we verified that the Plan returned this questioned amount of \$598,622 to the FEHBP, consisting of \$457,073 for unsupported settlement charges and \$141,549 for LII on these charges.

**Recommendation 4**

Since we verified that the Plan returned \$457,073 to the FEHBP for the unsupported settlement charges, no further action is required for this questioned amount.

**Recommendation 5**

Since we verified that the Plan returned \$141,549 to the FEHBP for LII on the unsupported settlement charges, no further action is required for this LII amount.

**3. Uncashed Health Benefit Checks **\$146,986****

The Plan had not returned uncashed health benefit checks of \$122,892 to the FEHBP as of December 31, 2009. These uncashed checks were issued by the Plan from 2002 through 2007. While preparing for our audit, the Plan returned these questioned uncashed checks to the FEHBP via LOCA adjustment on June 14, 2010. As a result of this finding, the Plan also returned LII of \$24,094 to the FEHBP calculated on the uncashed checks that were returned untimely to the FEHBP.

Contract CS 1056, Part III, Section 3.6 states: “Payment of checks issued pursuant to this contract shall be voided if the checks have been outstanding for two (2) years. The amounts represented by these checks shall be credited to the Special Reserve of this contract no later than the 25<sup>th</sup> month after issuance. . . .”

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . until the amount is paid.”

During the audit scope, the Plan withdrew funds from the LOCA on a “checks-issued” basis. Starting in July 2010, we noted that the Plan changed from the “checks-issued” to the “checks-presented” basis for withdrawing funds from the LOCA.

We reviewed the uncashed health benefit checks that were written-off during the period 2004 through 2009 for the purpose of determining whether the Plan promptly returned these funds to the FEHBP. These uncashed checks were issued by the Plan from 2002

through 2007 and totaled \$2,730,809. We reviewed the Plan's LOCA adjustments and verified that the Plan only returned \$2,607,917 of these uncashed checks to the FEHBP as of December 31, 2009. While preparing for our audit, the Plan returned the remaining balance of \$122,892 to the LOCA on June 14, 2010. However, since the Plan returned these remaining uncashed checks of \$122,892 to the FEHBP in an untimely manner (i.e., more than 25 months after issuance) and as a result of our audit, we are continuing to question this amount as a monetary finding. We also calculated LII of \$24,094 on these uncashed checks since the funds were returned untimely to the LOCA. The Plan returned this LII amount to the LOCA on January 24, 2011.

In total, we are questioning \$146,986, consisting of \$122,892 for uncashed health benefit checks and \$24,094 for LII on the uncashed checks that were returned untimely to the FEHBP.

**Plan's Response:**

The Plan agrees with this finding and returned the questioned amounts for uncashed checks and LII to the LOCA.

**OIG Comments:**

As part of our review, we verified that the Plan returned \$146,986 to the FEHBP, consisting of \$122,892 for uncashed checks and \$24,094 for LII.

**Recommendation 6**

Since we verified that the Plan returned \$122,892 to the FEHBP for the uncashed health benefit checks, no further action is required for this questioned amount.

**Recommendation 7**

Since we verified that the Plan returned \$24,094 to the FEHBP for LII on the uncashed health benefit checks returned untimely to the FEHBP, no further action is required for this LII amount.

**B. ADMINISTRATIVE EXPENSES**

**1. Pension Costs**

**\$16,244**

The Plan did not calculate pension costs in accordance with the Federal regulations. The regulations limit the amount of pension costs that may be charged to a government contract to the lower of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standards (CAS) 412 and 413, whichever is lower. The Plan did not calculate pension costs based on the lesser of the

cash contributions (funded) or CAS amounts. As a result, the Plan overcharged the FEHBP \$16,244 (net) for pension costs. Specifically, the Plan overcharged the FEHBP \$566,301 in 2006, 2008 and 2009, and undercharged the FEHBP \$550,057 in 2004, 2005 and 2007.

48 CFR 31.205-6(j)(2) states, “The cost of all defined-benefit pension plans shall be measured, allocated and accounted for in compliance with the provisions of 48 CFR 9904.412, Cost accounting standard for composition and measurement of pension cost, and 48 CFR 9904.413, Adjustment and allocation of pension cost. The costs of all defined-contribution pension plans shall be measured, allocated, and accounted for in accordance with the provisions of 48 CFR 9904.412 and 48 CFR 9904.413. Pension costs are allowable subject to the referenced standards . . . .”

The Federal Acquisition Regulations (FAR) limit the amount of pension costs that may be charged to a government contract to the amount of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standard (CAS) 412 and 413, whichever is lower.

The Plan’s pension expenses were calculated on a statutory basis (as required by the state of New York) for 2004 through 2006 and in accordance with generally accepted accounting principles for 2007 through 2009. For 2004 through 2009, the Plan allocated \$3,488,522 in pension costs to the FEHBP. However, the Plan’s pension cost allocations were not based on the lower of the funded or CAS amounts.

Since the Plan’s pension cost allocations were not based on the lower of the funded or CAS amounts, we requested the Plan to recalculate the 2004 – 2009 allocations based on the lower of these amounts. Based on the Plan’s recalculations, the FEHBP was overcharged \$566,301 in 2006, 2008 and 2009, and undercharged \$550,057 in 2004, 2005 and 2007, resulting in a net overcharge of \$16,244 to the FEHBP for pension costs from 2004 through 2009. We reviewed and accepted the Plan’s calculations.

**OIG Comments:**

On June 29, 2011, the Plan provided revised pension cost allocations for 2004 through 2009, which are based on the lower of the funded or CAS amounts. The Plan’s revised calculations resulted in a net overcharge of \$16,244 to the FEHBP for pension costs from 2004 through 2009.

**Recommendation 8**

We recommend that the contracting officer disallow \$566,301 for pension costs that were overcharged to the FEHBP in 2006, 2008, and 2009 (\$173,836, \$212,165, and \$180,300, respectively).

### **Recommendation 9**

We recommend that the contracting officer allow the Plan to charge the FEHBP \$550,057 for pension costs that were undercharged to the FEHBP in 2004, 2005, and 2007 (\$405,972, \$133,415, and \$10,670, respectively).

### **C. STATUTORY RESERVE PAYMENTS**

The audit disclosed no findings pertaining to statutory reserve payments. The Plan calculated and charged statutory reserve payments to the FEHBP in accordance with Contract CS 1056 and applicable laws and regulations.

### **D. CASH MANAGEMENT**

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1056 and applicable laws and regulations, except for the findings pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

### **E. LOST INVESTMENT INCOME ON AUDIT FINDINGS** **\$63,893**

As a result of the audit findings presented in this report, the FEHBP is due LII of \$63,893 from January 1, 2007 through June 30, 2011.

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

We computed investment income that would have been earned using the semiannual rates specified by the Secretary of the Treasury. Our computations show that the FEHBP is due LII of \$63,893 from January 1, 2007 through June 30, 2011 on questioned costs for contract years 2006 through 2009 (see Schedule C).

#### **Plan’s Response:**

The draft audit report did not include an audit finding for LII. Therefore, the Plan did not address this item in its reply.

**OIG Comments:**

Only the audit finding for “Pension Costs” (B1) is subject to our LII calculation in Schedule C.

The audit findings for “Pharmacy Drug Rebates” (A1), “Unsupported Settlement Charges (A2), and “Uncashed Health Benefit Checks” (A3) already include LII calculations. Therefore, these audit findings are not subject to our LII calculation in Schedule C.

**Recommendation 10**

We recommend that the contracting officer direct the Plan to credit \$63,893 (plus interest accruing after June 30, 2011) to the Special Reserve for LII on audit findings.

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

### Experience-Rated Audits Group

██████████, Auditor-In-Charge

████████████████████, Auditor

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██████████, Chief ██████████

██████████, Senior Team Leader

## V. SCHEDULES

## GROUP HEALTH INCORPORATED

NEW YORK, NEW YORK

## CONTRACT CHARGES

CONTRACT CHARGES	2004	2005	2006	2007	2008	2009	TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>							
CLAIM PAYMENTS*	\$195,517,870	\$182,925,261	\$185,308,314	\$183,742,398	\$185,027,576	\$192,135,472	\$1,124,656,891
OTHER ADJUSTMENTS	(2,912,496)	(3,585,003)	(3,489,322)	(4,231,935)	(4,314,260)	(4,708,816)	(23,241,833)
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$192,605,374</b>	<b>\$179,340,258</b>	<b>\$181,818,992</b>	<b>\$179,510,463</b>	<b>\$180,713,316</b>	<b>\$187,426,656</b>	<b>\$1,101,415,058</b>
<b>B. ADMINISTRATIVE EXPENSES</b>							
PLAN CODE 80	\$14,397,308	\$13,827,849	\$14,074,349	\$13,988,471	\$13,359,772	\$13,120,989	\$82,768,738
PRIOR PERIOD ADJUSTMENTS	(296,167)	0	0	0	0	0	(296,167)
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$14,101,141</b>	<b>\$13,827,849</b>	<b>\$14,074,349</b>	<b>\$13,988,471</b>	<b>\$13,359,772</b>	<b>\$13,120,989</b>	<b>\$82,472,571</b>
<b>C. STATUTORY RESERVE PAYMENTS</b>	<b>\$2,117,228</b>	<b>\$1,974,186</b>	<b>\$2,006,726</b>	<b>\$1,992,942</b>	<b>\$1,982,927</b>	<b>\$2,066,696</b>	<b>\$12,140,705</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$208,823,743</b>	<b>\$195,142,292</b>	<b>\$197,900,067</b>	<b>\$195,491,876</b>	<b>\$196,056,015</b>	<b>\$202,614,341</b>	<b>\$1,196,028,334</b>

\* We did not review claim payments on this audit.

## SCHEDULE B

GROUP HEALTH INCORPORATED  
NEW YORK, NEW YORK

## QUESTIONED CHARGES

AUDIT FINDINGS	2004	2005	2006	2007	2008	2009	2010	2011	TOTAL
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS*</b>									
1. Pharmacy Drug Rebates	\$0	\$0	\$0	\$0	\$0	\$2,788,625	\$75,822	\$0	\$2,864,447
2. Unsupported Settlement Charges	457,073	0	0	0	0	0	141,549	0	598,622
3. Uncashed Health Benefit Checks	0	69,999	(54,686)	(91,534)	121,327	77,786	24,094	0	146,986
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	<b>\$457,073</b>	<b>\$69,999</b>	<b>(\$54,686)</b>	<b>(\$91,534)</b>	<b>\$121,327</b>	<b>\$2,866,411</b>	<b>\$241,465</b>	<b>\$0</b>	<b>\$3,610,055</b>
<b>B. ADMINISTRATIVE EXPENSES</b>									
1. Pension Costs	(\$405,972)	(\$133,415)	\$173,836	(\$10,670)	\$212,165	\$180,300	\$0	\$0	\$16,244
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>(\$405,972)</b>	<b>(\$133,415)</b>	<b>\$173,836</b>	<b>(\$10,670)</b>	<b>\$212,165</b>	<b>\$180,300</b>	<b>\$0</b>	<b>\$0</b>	<b>\$16,244</b>
<b>C. STATUTORY RESERVE PAYMENTS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>D. CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>E. LOST INVESTMENT INCOME ON AUDIT FINDINGS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,561</b>	<b>\$8,584</b>	<b>\$20,265</b>	<b>\$18,050</b>	<b>\$7,433</b>	<b>\$63,893</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$51,101</b>	<b>(\$63,416)</b>	<b>\$119,150</b>	<b>(\$92,643)</b>	<b>\$342,076</b>	<b>\$3,066,976</b>	<b>\$259,515</b>	<b>\$7,433</b>	<b>\$3,690,192</b>

\* The audit findings for miscellaneous health benefit payments and credits include lost investment income (LII). No additional LII is applicable for these audit findings.

**GROUP HEALTH INCORPORATED  
NEW YORK, NEW YORK**

**LOST INVESTMENT INCOME CALCULATION**

LOST INVESTMENT INCOME	2004	2005	2006	2007	2008	2009	2010	2011**	TOTAL
<b>A. QUESTIONED CHARGES (Subject to Lost Investment Income)</b>									
Pension Costs*	\$0	\$0	\$173,836	\$0	\$212,165	\$180,300	\$0	\$0	\$566,301
<b>TOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>\$173,836</b>	<b>\$0</b>	<b>\$212,165</b>	<b>\$180,300</b>	<b>\$0</b>	<b>\$0</b>	<b>\$566,301</b>
<b>B. LOST INVESTMENT INCOME CALCULATION</b>									
a. Prior Years Total Questioned (Principal)	\$0	\$0	\$0	\$173,836	\$0	\$212,165	\$180,300	\$0	
b. Cumulative Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>173,836</u>	<u>173,836</u>	<u>386,001</u>	<u>566,301</u>	
c. Total	\$0	\$0	\$0	\$173,836	\$173,836	\$386,001	\$566,301	\$566,301	
d. Treasury Rate: January 1 - June 30	4.000%	4.250%	5.125%	5.250%	4.750%	5.625%	3.250%	2.625%	
e. Interest (d * c)	\$0	\$0	\$0	\$4,563	\$4,129	\$10,856	\$9,202	\$7,433	\$36,183
f. Treasury Rate: July 1 - December 31	4.500%	4.500%	5.750%	5.750%	5.125%	4.875%	3.125%		
g. Interest (f * c)	\$0	\$0	\$0	\$4,998	\$4,455	\$9,409	\$8,848		\$27,710
<b>Total Interest By Year (e + g)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$9,561</b>	<b>\$8,584</b>	<b>\$20,265</b>	<b>\$18,050</b>	<b>\$7,433</b>	<b>\$63,893</b>

\* Only the pension cost overcharges on Schedule B are subject to this lost investment income calculation.

\*\* We calculated lost investment income through June 30, 2011 on the pension cost overcharges.

██████████ ██████████  
Senior Vice President, Sales and Account Management  
Tel ██████████ Fax ██████████  
██



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January 21, 2011

██  
Auditor  
US Office of Personnel Management  
Office of the Inspector General  
701 San Marco Blvd.  
Jacksonville, FL 32207

RE: Response to Report No. ID-80-00-10-046

Dear ██████████

Enclosed is EmblemHealth's ("Plan") response to the Draft Audit Report that was released on November 22, 2010. The report questions \$7,299,415 in health benefit charges and administrative expenses from 2004 through 2009. Additionally, the report requests the Plan to provide documentation on unsolicited/unidentified refunds and provide a response to your request to have a pension allocation based on Cost Accounting Standards (CAS) 412 or 413 - whichever is lower.

With respect to the health benefit charges of \$7,299,415 as identified in the audit report, the following is a summary of the Plan's findings:

1. **Deleted by the Office of the Inspector General – Not Relevant to the Final Report**
2. The Plan agrees with the finding that pharmacy rebates totaling \$2,788,625 were not returned to FEHB as of December 31, 2009. The report recognizes subsequent to this date that \$1,571,282 in pharmacy rebates have been returned to the LOCA. Of the remaining rebates - i.e., \$1,217,343, GHI credited FEHB on June 30, 2010, July 21, 2010 and, August 31, 2010 with \$456,578 in rebates (documentation is provided in the enclosed report). On January 21, 2011 FEHB was also credited with the remaining rebates - i.e., \$760,765. Additionally, the Plan credited the LOCA with \$3,176.44 in lost investment income.
3. The Plan agrees with the finding that \$457,073 representing an unsupported settlement charge is due FEHB. On January 20, 2011, the LOCA was credited with this amount. Additionally, the Plan credited the LOCA with \$76,811 in lost investment income.

4. The Plan agrees with the finding that a credit for uncashed checks was not returned to FEHB as of December 31, 2009. Subsequent to this date, on June 15, 2010, a credit in the amount of \$122,892 was made to the LOCA and, on January 20, 2011, an additional \$24,094 representing lost investment income was credited to the LOCA.
5. **Deleted by the Office of the Inspector General – Not Relevant to the Final Report**

As requested, the plan's policies and procedures for unsolicited refunds and, a quotation to provide the pension allocation on a CAS basis are included in the attached report.

Should you have any questions regarding this response to your audit report, please feel free to contact me or [REDACTED].

[REDACTED]

Cc: [REDACTED]

**Response to The Draft Audit Report  
Federal Employees Health Benefit Program**

Report No. ID-80-00-10-046

Date: January 21, 2011

Group Health Incorporated  
Plan Code 80  
New York, New York

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**Health Benefit Refunds and Recoveries**  
**Audit Inquiry # 4**

**Deleted by the Office of the Inspector General – Not Relevant to the Final Report**

**Pharmacy Rebates**  
**Audit Inquiry # 7**

**OIG Finding:**

The Plan had not returned pharmacy drug rebates of \$2,788,625 to the LOCA as of December 31, 2009. Subsequent to this date, the Plan returned \$1,571,282 of these questioned drug rebates to the FEHBP. As a result, the FEHBP is still due \$1,217,343 for the remaining questioned drug rebates plus applicable LII on the drug rebates that were returned untimely or not returned to the FEHBP.

**Plan Response:**

The plan agrees with this finding. The Plan has credited the LOCA on January 21, 2011 with \$760,765 for ESI rebates. OCAP rebates in the amount of \$456,578 were credited to the LOCA on June 30, 2010, July 21, 2010 and August 31, 2010. A total of 1,217,343 in ESI and OCAP rebates plus LII in the amount of 3,176.44 have been credited to the LOCA. Attached to this report is documentation of these credits.

**Unsupported Settlement Charges**  
**Audit Inquiry #2**

**OIG Finding:**

The Plan did not provide documentation to support settlement charges of \$457,073 to the FEHBP, which were reported in the 2004 Annual Accounting Statement (AAS). As a result, the FEHBP is due \$457,073 for these unsupported charges.

**Plan Response:**

The Plan agrees with this finding and has returned the \$457,073 plus \$76,811 in LII to the LOCA on January 20, 2011.

**Uncashed Health Benefit Checks**  
**Audit Inquiry #6**

**OIG Finding:**

The Plan had not returned uncashed health benefit checks of \$122,892 to the LOCA as of December 31, 2009. These uncashed checks were issued by the Plan from 2002 through 2007. Subsequent to this date, the Plan returned these questioned uncashed checks to the FEHBP. As a result, the FEHBP is still due \$24,094 for LII on these uncashed checks since the funds were returned untimely to the FEHBP.

**Plan Response:**

The Plan agrees with this finding. The Plan returned \$122,892 to the LOCA on June 15, 2010. The Plan also credited the LOCA on January 20, 2011 for the additional \$24,094 in LII.

**Unsolicited and Unidentified Refunds**  
**Audit Inquiry #3**

**Deleted by the Office of the Inspector General – Not Relevant to the Final Report**

**Unsupported Behavior Management Program Charges**  
**Audit Inquiry # 5**

**Deleted by the Office of the Inspector General – Not Relevant to the Final Report**

**Pension Cost**  
**Audit Inquiry #1**

**OIG Findings:**

The Plan did not calculate pension costs in accordance with the Federal regulations. The regulations limit the amount of pension costs that may be charged to a government contract to the lower of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standards (CAS) 412 and 413, whichever is lower. The Plan did not calculate pension costs based on the lesser of cash contributions (funded) or CAS amounts. Therefore, we could not determine if the Plan charged the correct pension cost amounts to the FEHBP.

**Plan Response:**

In July 2010, the Plan was asked by the OIG audit team to provide OPM with a quote to have the Plan's pension cost allocation changed from Generally Accepted Accounting Principles to CAS Accounting Standards. This change means an additional cost would be borne by FEHB program. Accordingly, the Plan has provided a quote to OPM and is awaiting a decision.