



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 Fallon Community Health Plan

Report No. 1C-JV-00-11-061

Date: March 28, 2012

-- 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
Community-Rated Health Maintenance Organization
Fallon Community Health Plan
Contract Number 1917 - Plan Code JV
Worcester, Massachusetts**

Report No. 1C-JV-00-11-061

Date: March 28, 2012

A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

Michael R. Esser
Assistant Inspector General
for Audits

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Fallon Community Health Plan
Contract Number 1917 - Plan Code JV
Worcester, Massachusetts**

Report No. 1C-JV-00-11-061

Date: March 28, 2012

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Fallon Community Health Plan. The audit covered contract years 2007 through 2009 and was conducted at the Plan's office in Worcester, Massachusetts.

This report questions \$148,291 for inappropriate health benefit charges to the FEHBP in contract year 2009. The questioned amount includes \$136,411 for defective pricing and \$11,880 due the FEHBP for lost investment income, calculated through February 29, 2012. We determined that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2007 and 2008.

For contract year 2009, we determined that the FEHBP's rates were overstated by \$136,411 due to defective pricing. More specifically, the Plan did not apply the correct SSSG discount to the FEHBP's rates in 2009.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$11,880 for lost investment income, calculated through February 29, 2012, on the defective pricing finding. In addition, we recommend that the contracting officer recover lost investment income starting March 1, 2012, until all defective pricing amounts have been returned to the FEHBP.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Fallon Community Health Plan (Plan). The audit covered contract years 2007 through 2009 and was conducted at the Plan's office in Worcester, Massachusetts. The audit was conducted pursuant to the provisions of Contract CS 1917; 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.

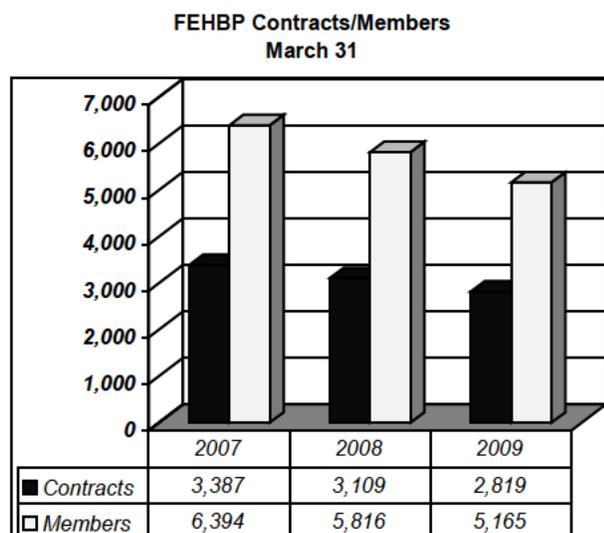
Background

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 1982 and provides health benefits to FEHBP members in Central, Eastern, and Western Massachusetts. The last audit of the Plan conducted by our office was a rate reconciliation audit for contract year 2010. We agreed with the Plan's 2010 proposed reconciled rates.

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.

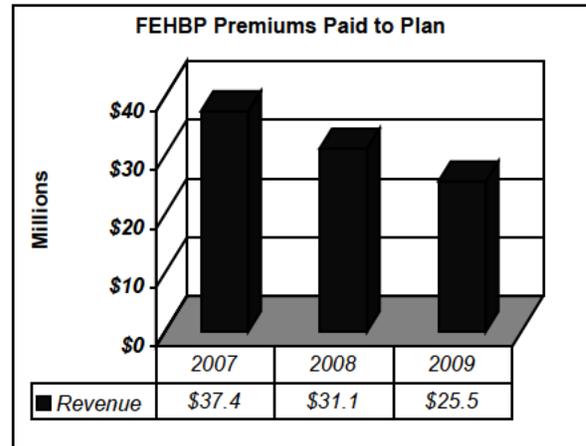
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 through 2009. For these contract years, the FEHBP paid approximately \$94 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 billings and enrollment 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 Worcester, Massachusetts, during August 2011. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C.

Methodology

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), 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

\$136,411

The Certificate of Accurate Pricing the Plan signed for contract year 2009 was defective. In accordance with federal regulations, the 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 \$136,411 (see Exhibit A). Based on our audit, we accepted the Plan's rating of the FEHBP in contract years 2007 and 2008. We do not have any questioned costs for those years.

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 the SSSGs. SSSGs are the plan's two employer groups closest in size to the FEHBP. If it is found that the FEHBP was charged higher than the market price rate (i.e., the best rate offered to an SSSG), a condition of defective pricing exists, requiring a downward adjustment of the FEHBP premiums to the equivalent market price rate.

2009

The Plan selected [REDACTED] as the SSSGs in contract year 2009. We agree with the Plan's selection of [REDACTED] however, we do not agree with the selection of [REDACTED]. Instead, we selected the [REDACTED] as the other SSSG because it was closer in size to the FEHBP.

Our review of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount. The Plan calculated an SSSG discount of [REDACTED] percent, which they applied to Line 12 of the reconciliation. We removed the Plan's [REDACTED] percent line 12 discount and applied our [REDACTED] percent discount to Line 5 of the reconciliation. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged \$98,976 for the basic option and \$37,435 for the standard option (see Exhibit B).

Plan's Comments (see Appendix):

The Plan agrees with our finding.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$136,411 to the FEHBP for defective pricing in contract year 2009.

2. Lost Investment Income

\$11,880

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 \$11,880 for lost investment income, calculated through February 29, 2012 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning March 1, 2012, until all defective pricing finding amounts have been returned to the FEHBP.

FEHBAR 1652.215-70 provides that if any rate established in connection with the FEHBP contract was increased because the carrier furnished cost or pricing data that were not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$11,880 to the FEHBP for lost investment income for the period January 1, 2009, through February 29, 2012. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning March 1, 2012, until all defective pricing amounts have been returned to the FEHBP.

Plan's Comments (see Appendix):

The Plan agrees with our finding.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-in-Charge

██████████, Auditor

██████████, Lead Auditor

██████████ Chief

██████████s, Senior Team Leader

**Fallon Community Health Plan
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2009 \$136,411

Total Defective Pricing Questioned Costs **\$136,411**

Lost Investment Income **\$11,880**

Total Questioned Cost **\$148,291**

FALLON COMMUNITY HEALTH PLAN

Defective Pricing Questioned Costs

2009 Contract Year - Basic Option

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates	[REDACTED]	[REDACTED]	
Audited Line 5 Rates	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
March 31, 2009 Enrollment x 26 pay period	[REDACTED]	[REDACTED]	
Amount Due FEHBP in 2009			\$98,976

2009 Contract Year - Standard Option

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates	[REDACTED]	[REDACTED]	
Audited Line 5 Rates	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
March 31, 2009 Enrollment x 26 pay period	[REDACTED]	[REDACTED]	
Amount Due FEHBP in 2009			<u>\$37,435</u>

Total Defective Pricing Questioned Cost **\$136,411**

**FALLON COMMUNITY HEALTH PLAN
Lost Investment Income**

Year	2009	2010	2011	29-Feb-2012	Total
Audit Findings:					
Defective Pricing	\$136,411	\$0	\$0	\$0	\$136,411
<hr/>					
Totals (per year):	\$136,411	\$0	\$0	\$0	\$136,411
Cumulative Totals:	\$136,411	\$136,411	\$136,411	\$136,411	\$136,411
Average Annual Interest Rate:	5.2500%	3.1875%	2.5625%	2.0000%	
Interest on Prior Years Findings:	\$0	\$4,348	\$3,496	\$455	\$8,299
Current Years Interest:	\$3,581	\$0	\$0	\$0	\$3,581
Total Cumulative Interest Through February 29, 2012	\$3,581	\$4,348	\$3,496	\$455	\$11,880

APPENDIX



One Chestnut Place ■ 10 Chestnut St. ■ Worcester, MA 01608 ■ 508-799-2100

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February 10, 2012

James L. Tuel, Jr.
Chief, Community- Rated
Audits Group
800 Cranberry Woods Drive, Suite 270
Cranberry Township, PA 16066

Dear Mr. James L. Tuel, Jr.

Thank you for your letter and draft report dated January 13, 2012 concerning our most recent audit of plan years 2007, 2008, and 2009. Our review of this report with all of the FEHBP plan files is now complete. Fallon Community Health plan (FCHP) will accept the findings in the draft report for all three years in question with no further comments required. When the final report is issued, assuming no material changes are made, FCHP will work with the FEHBP on the required payment of approximately \$147,836 from the audits final outcome.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Walker", written in a cursive style.

Scott Walker
EVP & Chief Financial Officer
Fallon Community Health Plan