



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

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# Final Audit Report

**Subject:**

## AUDIT OF CAPITAL DISTRICT PHYSICIANS' HEALTH PLAN ALBANY, NEW YORK

**Report No. 1D-SG-00-13-010**

**Date:** May 30, 2013

**--CAUTION--**

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## AUDIT REPORT

Federal Employees Health Benefits Program  
Experience-Rated Health Maintenance Organization

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Capital District Physicians' Health Plan  
Contract CS 2901                      Plan Code SG  
Albany, New York

REPORT NO. 1D-SG-00-13-010

DATE: 5/30/13



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Michael R. Esser  
Assistant Inspector General  
for Audits

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## EXECUTIVE SUMMARY

Federal Employees Health Benefits Program  
Experience-Rated Health Maintenance Organization

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Capital District Physicians' Health Plan  
Contract CS 2901                      Plan Code SG  
Albany, New York

REPORT NO. 1D-SG-00-13-010      DATE: 5/30/13

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Capital District Physicians' Health Plan (Plan), located in Albany, New York, questions \$10,168 in lost investment income (LII). The report also includes a procedural finding regarding the Plan's annual fraud and abuse (F&A) reports. The Plan agreed (**A**) with the questioned amount and the procedural finding.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered health benefit refunds and recoveries from 2007 through June 30, 2012 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management activities and practices related to FEHBP funds and the Plan's F&A Program from 2007 through June 30, 2012.

The audit results are summarized as follows:

## **HEALTH BENEFIT REFUNDS AND RECOVERIES**

- **Health Benefit Refunds and Pharmacy Drug Rebates (A)** **\$10,168**

Our audit determined that the Plan did not timely deposit 9 health benefit refunds and 18 quarterly pharmacy drug rebates, totaling approximately \$4 million, into the FEHBP investment account. Since the Plan returned these funds to the FEHBP during the audit scope, we did not question the principal amounts of these refunds and rebates as a monetary finding. However, as a result of this finding, the Plan returned \$10,168 to the FEHBP for LII calculated on these refunds and rebates.

## **CASH MANAGEMENT**

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2901 and applicable laws and regulations, except for the audit finding pertaining to cash management noted in the “Health Benefit Refunds and Recoveries” section.

## **FRAUD AND ABUSE PROGRAM**

- **Fraud and Abuse Annual Reports (A)** **Procedural**

The Plan did not provide the Office of Personnel Management with annual F&A reports containing FEHBP-specific data for contract years 2010 and 2011. Specifically, these reports contained corporate-wide fraud cases, recoveries, savings, and dollar losses instead of the required FEHBP-specific data.

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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 Capital District Physicians' Health Plan (Plan). The Plan is located in Albany, 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 in the Plan's service area, which includes Upstate, Hudson Valley, and Central New York.

The Plan's contract (CS 2901) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that 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.

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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.

This is our first audit of this Plan as an experience-rated HMO. The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated February 25, 2013. 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 April 8, 2013 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:

#### **Health Benefit Refunds and Recoveries**

- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

#### **Cash Management**

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

#### **Fraud and Abuse Program**

- To determine if the Plan's fraud and abuse annual reports to OPM were in compliance with the FEHBP contract.

### **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 2007 through 2011. During this period, the Plan paid approximately \$214 million in health benefit charges (See Figure 1 and Schedule A). Specifically, we reviewed health benefit refunds and recoveries (e.g., refunds, fraud recoveries, and pharmacy drug rebates), cash management activities (e.g., letter of credit account drawdowns, working capital adjustments, and interest income), and the Plan's Fraud and Abuse (F&A) Program from 2007 through June 30, 2012.

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 operations. 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 FEHBP 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.

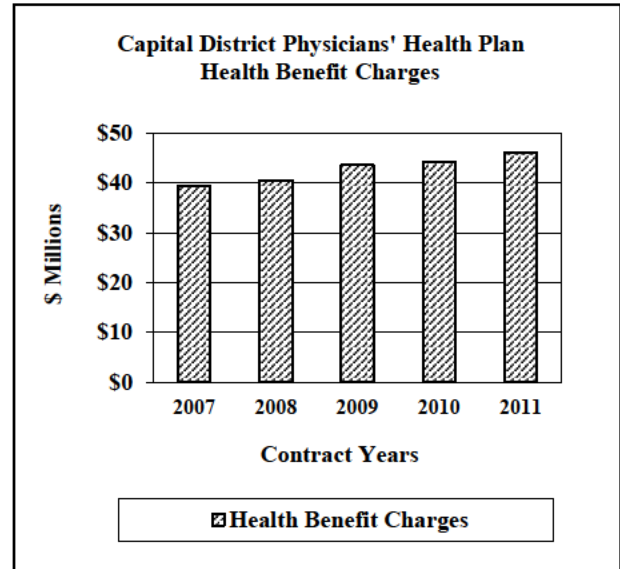


Figure 1 – Contract Charges

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 Albany, New York from November 5, 2012 through November 9, 2012. Audit fieldwork was also performed at our offices in Washington, D.C. and Cranberry Township, Pennsylvania.

## **METHODOLOGY**

We obtained an understanding of the internal controls over the Plan's financial 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 health benefit refunds and recoveries. We also judgmentally selected and reviewed 98 high dollar health benefit refunds, totaling \$2,329,794 (from a universe of 9,816 refunds, totaling \$6,521,295); all quarterly pharmacy drug rebates, totaling \$5,486,895; and 7 high dollar fraud recoveries, totaling \$17,348 (from a universe of 55 recoveries, totaling \$28,433), to determine if refunds and recoveries were promptly returned to the FEHBP.<sup>2</sup> The results of these samples were not projected to the universe of health benefit refunds and recoveries.

<sup>2</sup> The sample of health benefit refunds included refunds of \$5,000 or more, except for standard option refunds from July 1, 2009 through June 30, 2012, which only included refunds of \$20,000 or more. For pharmacy drug rebates, we selected all 24 of the quarterly drug rebate amounts that were received by the Plan during the audit scope. For fraud recoveries, we selected all recoveries of \$1,000 or more.

We reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2901 and applicable laws and regulations. We also interviewed the Plan's Special Investigations Unit, as well as reviewed the Plan's annual F&A reports to test compliance with the FEHBP contract.

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

#### **A. HEALTH BENEFIT REFUNDS AND RECOVERIES**

##### **1. Health Benefit Refunds and Pharmacy Drug Rebates** **\$10,168**

Our audit determined that the Plan did not timely deposit 9 health benefit refunds and 18 quarterly pharmacy drug rebates, totaling approximately \$4 million, into the FEHBP investment account. Since the Plan returned these funds to the FEHBP during the audit scope, we did not question the principal amounts of these refunds and rebates as a monetary finding. However, as a result of this finding, the Plan returned \$10,168 to the FEHBP for lost investment income (LII) calculated on these refunds and rebates.

48 CFR 31.201-5 states, “The applicable portion of any income, rebate, allowance, or other credit relating to any allocable 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 2901, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries, including erroneous payment 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.”

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.”

For the period January 1, 2007 through June 30, 2012, there were 9,816 health benefit refunds totaling \$6,521,295. From this universe, we selected and reviewed a judgmental sample of 98 refunds, totaling \$2,329,794, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our sample included all refunds of \$5,000 or more, except for standard option refunds from July 1, 2009 through June 30, 2012, which only included refunds of \$20,000 or more. In addition, we reviewed the complete universe of pharmacy drug rebates for the audit scope, which included 24 quarterly drug rebate amounts totaling \$5,486,895, to determine if the Plan timely returned these funds to the FEHBP.

Based on our review, we determined that the Plan did not timely deposit 9 health benefit refunds, totaling \$237,954, and 18 quarterly drug rebates, totaling \$3,763,046, into the FEHBP investment account within 30 days of receipt. Specifically, these funds were deposited into the FEHBP investment account from 1 to 123 days late. Since these funds were deposited into the FEHBP investment account and returned to the letter of credit account (LOCA) during the audit scope, we did not question the principal amounts of these refunds and rebates as a monetary finding. However, we calculated LII of \$10,168

on these refunds and rebates since the funds were deposited untimely into the FEHBP investment account.

**Plan's Response:**

The Plan agrees with this finding and states that the questioned LII of \$10,168 has been deposited into the FEHBP investment account. The Plan is actively working with the Pharmacy Benefit Manager to have the rebates directly deposited into the FEHBP investment account. The Plan is also currently reviewing the recovery processes.

**OIG Comments:**

We verified that the Plan returned the questioned LII of \$10,168 to the FEHBP.

**Recommendation 1**

Since we verified that the Plan returned \$10,168 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**B. CASH MANAGEMENT**

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2901 and applicable laws and regulations, except for the audit finding pertaining to cash management noted in the "Health Benefit Refunds and Recoveries" section.

**C. FRAUD AND ABUSE PROGRAM**

**1. Fraud and Abuse Annual Reports**

**Procedural**

The Plan did not provide OPM with annual F&A reports containing FEHBP-specific data for contract years 2010 and 2011. Specifically, these reports contained corporate-wide fraud cases, recoveries, savings, and dollar losses instead of the required FEHBP-specific data.

Contract CS 2901 Section 1.9(a) states, "The Carrier shall conduct a program to assess its vulnerability to fraud and abuse and shall operate a system designed to detect and eliminate fraud and abuse internally by Carrier employees and subcontractors, by providers providing goods or services to FEHB Members, and by individual FEHB Members. . . . The Carrier must submit to OPM an annual analysis of the costs and benefits of its fraud and abuse program." In addition, the Plan must submit annual F&A reports to OPM by March 31<sup>st</sup>, to include FEHBP cases opened, dollars identified as lost and recovered on active cases, and actual and projected savings on active cases.

We reviewed the Plan's annual F&A reports for 2007 through 2011. For 2007 through 2009, the Plan reported no FEHBP cases in the annual reports. For 2010 and 2011, we found that although the Plan provided annual F&A reports to OPM on the required

contact elements, the Plan only reported corporate-wide fraud cases, recoveries, savings and dollar losses, and not FEHBP-specific data. By reporting only corporate-wide data to OPM, the Plan is overstating recoveries and savings that the FEHBP receives from the Plan's fraud and abuse activities. Reporting of corporate-wide data can also be misleading and may give OPM a false sense that the FEHBP is being adequately protected.

**Plan's Response:**

The Plan agrees with this finding. The Plan states, "Upon further review and discussions . . . CDPHP understands that it will report only on FEHBP specific related cases and not companywide statistics for future reporting. CDPHP did not intentionally attempt to inflate the numbers as it was believed companywide numbers were to be reported to OPM."

**Recommendation 2**

We recommend that the contracting officer verify that the Plan submits annual F&A reports to OPM that include FEHBP-specific cases opened, dollars identified as lost and recovered, and actual and projected savings.

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

### Experience-Rated Audits Group

██████████, Lead Auditor

██████████ Auditor

██████████, Auditor

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██████████, Chief ██████████

██████████, Senior Team Leader

### Office of Investigations

██████████, Special Agent-In-Charge

V. SCHEDULE A

CAPITAL DISTRICT PHYSICIANS' HEALTH PLAN  
ALBANY, NEW YORK

HEALTH BENEFIT CHARGES AND AMOUNTS QUESTIONED

HEALTH BENEFIT CHARGES*	2007	2008	2009	2010	2011	TOTAL	
HEALTH BENEFIT CHARGES	\$39,496,779	\$40,578,449	\$43,642,675	\$44,171,264	\$46,192,036	\$214,081,203	
AMOUNTS QUESTIONED	2007	2008	2009	2010	2011	2012	TOTAL
<b>A. HEALTH BENEFIT REFUNDS AND RECOVERIES</b>							
1. Health Benefit Refunds and Pharmacy Drug Rebates**	\$2,875	\$4,176	\$178	\$1,597	\$658	\$684	\$10,168
<b>B. CASH MANAGEMENT</b>	0	0	0	0	0	0	0
<b>C. FRAUD AND ABUSE PROGRAM</b>							
1. Fraud and Abuse Annual Reports (Procedural)	0	0	0	0	0	0	0
<b>TOTAL AMOUNTS QUESTIONED</b>	<b>\$2,875</b>	<b>\$4,176</b>	<b>\$178</b>	<b>\$1,597</b>	<b>\$658</b>	<b>\$684</b>	<b>\$10,168</b>

\* This audit only covered health benefit refunds and recoveries and cash management activities from 2007 through June 30, 2012.

\*\* The amount questioned is for lost investment income (LII). No additional LII is applicable for this audit finding.



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March 25, 2013

[REDACTED]  
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1900 E Street N.W., Room 6400  
Washington, DC 20415

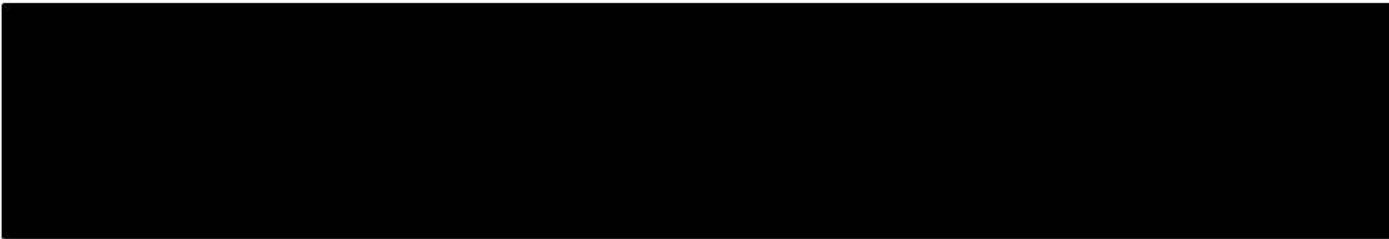
**Re: Report NO. 1D-SG-00-13-010/Audit Draft Report Response**

Dear [REDACTED]

CDPHP has reviewed the Draft Audit Report and Schedule A that was provided on February 25, 2013. The audit that was conducted at CDPHP covered health benefit refunds and recoveries from 2007 through June 30, 2012. In addition, CDPHP's cash management practices related to the FEHBP funds and the CDPHP Fraud and Abuse (F&A) Program from 2007 through June 30, 2012 were reviewed during the audit.

Based on the review conducted by OIG, it was determined that there were two finding. The first of which is related to untimely deposits of pharmacy rebates and health benefit refunds. CDPHP agreed with the finding and is actively working with PBM to have the rebates directly deposited into to the FEHBP account. Additionally, CDPHP is currently reviewing its' recovery processes as well. As a result of the audit it was determined that FEHBP was due \$10,168 for loss of investment income on the untimely returned health benefit refunds and pharmacy drug rebates. Attached please find a copy of the verification showing that these monies have been deposited in the FEHBP account.

The second finding indicated that CDPHP did not report FEHBP-specific data but rather supplied OPM with corporate-data only. CDPHP agreed that FEHBP specific data was not reported separately from corporate wide cases on the 2011 Fraud & Abuse Annual Report. Upon further review and discussions had during the OIG Audit, CDPHP understands that it will report only on FEHBP specific related cases and not companywide statistics for future reporting.



Capital District Physicians' Health Plan, Inc.  
Capital District Physicians' Healthcare Network, Inc.  
CDPHP Universal Benefits,® Inc.



We appreciated having the opportunity to review a copy of the Draft Audit Report, allowing for a thorough review of the document and an opportunity to provide comments.

If you have any questions, please feel free to contact me directly at [REDACTED]

Sincerely,

[REDACTED]  
Senior Strategic Account Executive  
Capital District Physicians' Health Plan

Attachment