



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

---

---

# Final Audit Report

**Subject:**

## **Audit of the Federal Employees Health Benefits Program Operations at MVP Health Care – Mid-Hudson Region**

**Report No. 1C-MX-00-12-064**

**Date: April 9, 2013**

**-- CAUTION --**

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

## AUDIT REPORT

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

Report No. 1C-MX-00-12-064

Date: 04/09/13



---

**Michael R. Esser  
Assistant Inspector General  
for Audits**

### -- CAUTION --

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

---

## EXECUTIVE SUMMARY

---

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

**Report No. 1C-MX-00-12-064**

**Date: 04/09/13**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at MVP Health Care – Mid-Hudson Region (Plan). The audit covered contract years 2008 through 2012. The audit was conducted at the Plan’s office in Schenectady, New York.

This report questions \$272,646 for inappropriate health benefit charges to the FEHBP in contract year 2008. The questioned amount includes \$235,675 for defective pricing and \$36,971 for lost investment income. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management’s rules and regulations for contract years 2009 and 2010.

For contract year 2008, the Plan did not apply the correct similarly sized subscriber group (SSSG) discount to the FEHBP rates. Also, in contract years 2011 and 2012, the Plan applied a Health Dollars benefit rider to the FEHBP rates. The benefit is used by members to purchase health and wellness programs to promote healthy living. Because this is not an FEHBP contracted benefit and cannot be charged to the FEHBP, we removed the loading from our 2011 and 2012 audited FEHBP rates. We found the removal of this loading had no material cost impact to the FEHBP rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$36,971 for lost investment income, calculated through March 31, 2013, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning April 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

## CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND.....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	5
Premium Rate Review .....	5
1. Defective Pricing .....	5
2. Inappropriate Benefit Loadings .....	6
3. Lost Investment Income.....	6
IV. MAJOR CONTRIBUTORS TO THIS REPORT .....	8
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	
Appendix ( MVP Health Care – Mid-Hudson Region’s March 12, 2013, response to the draft report)	

# I. INTRODUCTION AND BACKGROUND

## Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at MVP Health Care – Mid-Hudson Region (Plan). The audit covered contract years 2008 through 2012, and was conducted at the Plan’s office in Schenectady, New York. The audit was conducted pursuant to the provisions of Contract CS 2362; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the Office of Personnel Management’s (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

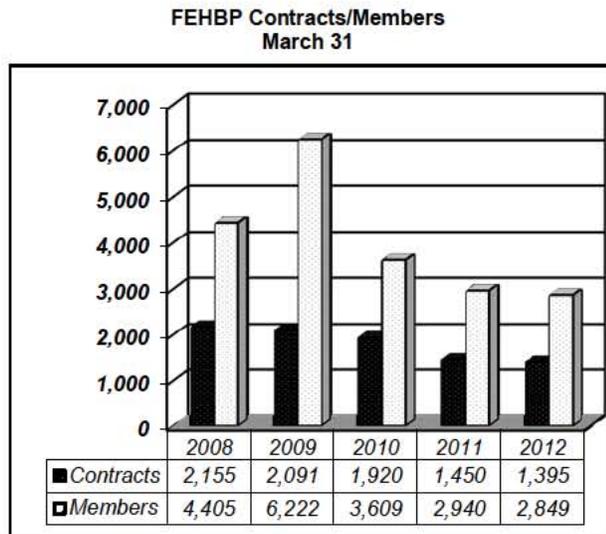
## Background

The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM’s Healthcare and Insurance Office. The provisions of the Federal Employees Health Benefits Act are implemented by OPM through regulations codified in Chapter 1, Part 890 of Title 5, CFR. Health insurance coverage is provided through contracts with health insurance carriers who provide service benefits, indemnity benefits, or comprehensive medical services.

Community-rated carriers participating in the FEHBP are subject to various federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., many community-rated carriers are federally qualified). In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The FEHBP should pay a market price rate, which is defined as the best rate offered to either of the two groups closest in size to the FEHBP. In contracting with community-rated carriers, OPM relies on carrier compliance with appropriate laws and regulations and, consequently, does not negotiate base rates. OPM negotiations relate primarily to the level of coverage and other unique features of the FEHBP.

The chart to the right shows the number of FEHBP contracts and members reported by the Plan as of March 31 for each contract year audited.



The Plan has participated in the FEHBP since 1988 and provides health benefits to FEHBP members in the Mid-Hudson area of New York, including Columbia, Dutchess, Greene, Orange, Putnam, Rockland, Sullivan, and Ulster counties. The last full scope audit of the Plan conducted by our office was for contract years 2003 and 2005 through 2007. The audit found the Plan was not properly crediting the FEHBP for premium tax, graduate medical expense, and bad debt/charity loadings that were included in the community rates. All audit issues were 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**

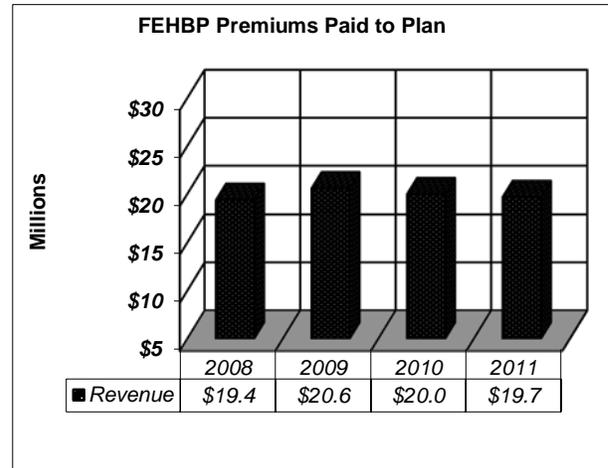
### **Objectives**

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 2008 through 2012. For contract years 2008 through 2011, the FEHBP paid approximately \$79.7 million in premiums to the Plan, as shown on the chart above. The 2012 subscription income was not available at the time of this report.



OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and OPM rate instructions. These audits are also designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts.

We obtained an understanding of the Plan's internal control structure, but we did not use this information to determine the nature, timing, and extent of our audit procedures. However, the audit included such tests of the Plan's rating system and such other auditing procedures considered necessary under the circumstances. Our review of internal controls was limited to the procedures the Plan has in place to ensure that:

- The appropriate similarly sized subscriber groups (SSSG) were selected;
- the rates charged to the FEHBP were the market price rates (i.e., equivalent to the best rate offered to the SSSGs); and
- the loadings to the FEHBP rates were reasonable and equitable.

In conducting the audit, we relied to varying degrees on computer-generated billing, enrollment, and claims data provided by the Plan. We did not verify the reliability of the data generated by the various information systems involved. However, nothing came to our attention during our audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the available data was sufficient to achieve our audit objectives. Except as noted above, the audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was performed at the Plan's office in Schenectady, New York during August 2012. Additional audit work was completed at our offices in Jacksonville, Florida; Washington, D.C.; and Cranberry Township, Pennsylvania.

### **Methodology**

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations, and OPM's Rate Instructions to Community-Rated Carriers to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

To gain an understanding of the internal controls in the Plan's rating system, we reviewed the Plan's rating system policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

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

#### **Premium Rate Review**

##### **1. Defective Pricing**

**\$235,675**

The Certificate of Accurate Pricing the Plan signed for contract year 2008 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 due a premium adjustment totaling \$235,675 (see Exhibit A). For contract years 2011 and 2012, we determined that the Plan applied an inappropriate benefit loading to the FEHBP rates, which had no material cost impact to the FEHBP. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM's rules and regulations in contract years 2009 and 2010.

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. OPM regulations refer to a market price rate in conjunction with the rates offered to an SSSG. SSSGs are the Plan's two employer groups closest in subscriber 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.

#### **2008**

We agree with the Plan's selection of [REDACTED] and [REDACTED] as SSSGs for contract year 2008. Our analysis shows that [REDACTED] did not receive a discount and the Plan did not apply a discount to the FEHBP. However, [REDACTED] received a [REDACTED] percent discount. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [REDACTED] percent discount to the FEHBP's rates.

We calculated our audited FEHBP rates by applying the [REDACTED] percent [REDACTED] discount. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates show the FEHBP was overcharged \$235,675 in contract year 2008 (see Exhibit B).

#### **Plan's Comments (see Appendix):**

The Plan has no issues or concerns with these findings.

#### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$235,675 to the FEHBP for defective pricing in contract year 2008.

## **2. Inappropriate Benefit Loadings**

In contract years 2011 and 2012, the Plan included the cost of rider “MED 531L” in the FEHBP premium rates. The rider represents a \$50 Health Dollar benefit offered to subscribers to spend on health, wellness and fitness programs. We reviewed the 2011 and 2012 FEHBP brochures and determined that the Health Dollar benefit was listed in the Non-FEHBP benefits available to Plan members section of the brochures. As stated in the brochures, “the benefits in this section are not part of the FEHBP contract or premium.” The inclusion of this rider inappropriately increased the FEHBP premium rates. We removed the loading from our audited FEHBP rate development. However, the removal did not have a material cost impact to the FEHBP rates.

### **Plan’s Comments (see Appendix):**

The Plan has no issues or concerns with these findings, and stated they would exclude the Health Dollar loading from the 2013 and future FEHBP rate developments.

### **Recommendation 2**

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

## **3. Lost Investment Income**

**\$36,971**

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 2008. We determined that the FEHBP is due \$36,971 for lost investment income, calculated through March 31, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning April 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 was 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 has no issues or concerns with the lost investment income finding.

**Recommendation 3**

We recommend that the contracting officer require the Plan to return \$36,971 to the FEHBP for lost investment income, calculated through March 31, 2013. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning April 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

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

### **Community-Rated Audits Group**

██████████ Auditor-in-Charge

██████████, Auditor

██████████, Auditor

---

██████████ Chief

██████████, Senior Team Leader

**MVP Health Care - Mid-Hudson Region  
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2008 \$235,675

Total Defective Pricing Questioned Costs: \$235,675

Lost Investment Income: \$36,971

**Total Questioned Costs: \$272,646**

**MVP Health Care - Mid-Hudson Region  
Defective Pricing Questioned Costs**

**2008**

**High Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Overcharge	■	■	
To Annualize Overcharge:			
March 31, 2008 enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>\$203,938</b>

**Standard Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Overcharge	■	■	
To Annualize Overcharge:			
March 31, 2008 enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b><u>\$31,737</u></b>

**Total 2008 Questioned Costs**

**\$235,675**

**Total Defective Pricing Questioned Costs:**

**\$235,675**

**MVP Health Care - Mid-Hudson Region  
Lost Investment Income**

<b>Year</b>	2008	2009	2010	2011	2012	As of March 31, 2013	Total
<b>Audit Findings:</b>							
1. Defective Pricing	\$235,675	\$0	\$0	\$0	\$0	\$0	\$235,675
<hr/>							
Totals (per year):	\$235,675	\$0	\$0	\$0	\$0	\$0	\$235,675
Cumulative Totals:	\$235,675	\$235,675	\$235,675	\$235,675	\$235,675	\$235,675	\$235,675
Avg. Interest Rate (per year):	4.938%	5.250%	3.188%	2.563%	1.875%	1.375%	
Interest on Prior Years Findings:	\$0	\$12,373	\$7,512	\$6,039	\$4,419	\$810	\$31,153
Current Years Interest:	\$5,818	\$0	\$0	\$0	\$0	\$0	\$5,818
<hr/>							
Total Cumulative Interest Calculated Through March 31, 2013:	\$5,818	\$12,373	\$7,512	\$6,039	\$4,419	\$810	<b>\$36,971</b>

Appendix



March 12, 2013

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

VIA e-mail

Re: MVP Health Plan, Inc. Audits Retrospective/Reconciliation Rate Audit  
MX: 2008, 2009, 2010, 2011, 2012  
Draft Report dated 12/14/2012

Dear [REDACTED]

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

Sincerely,

[REDACTED]

Associate Director of Actuarial  
MVP Health Plan, Inc.

Cc: David W. Oliker, President & CEO  
[REDACTED] OPM