



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 HealthPlus of Michigan, Inc.

Report No. 1C-X5-00-14-005

Date: July 28, 2014

-- 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
HealthPlus of Michigan, Inc.
Contract Number CS 2712 - Plan Code X5
Flint, Michigan**

Report No. 1C-X5-00-14-005

Date: July 28, 2014



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

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EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
HealthPlus of Michigan, Inc.
Contract Number CS 2712 - Plan Code X5
Flint, Michigan**

Report No. 1C-X5-00-14-005

Date: July 28, 2014

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthPlus of Michigan, Inc. (Plan). The audit covered contract years 2011 and 2012, and was conducted at the Plan's office in Flint, Michigan.

We found that the Plan was not compliant with its FEHBP record retention clause in contract year 2012. We determined that the FEHBP premium rates were developed in accordance with the Office of Personnel Management's rules and regulations for contract year 2011.

CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	5
1. Record Retention	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT	6
Appendix (HealthPlus of Michigan’s May 9, 2014 response to the draft report)	

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthPlus of Michigan, Inc. (Plan). The audit covered contract years 2011 and 2012, and was conducted at the Plan's office in Flint, Michigan. The audit was conducted pursuant to the provisions of Contract CS 2712; 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

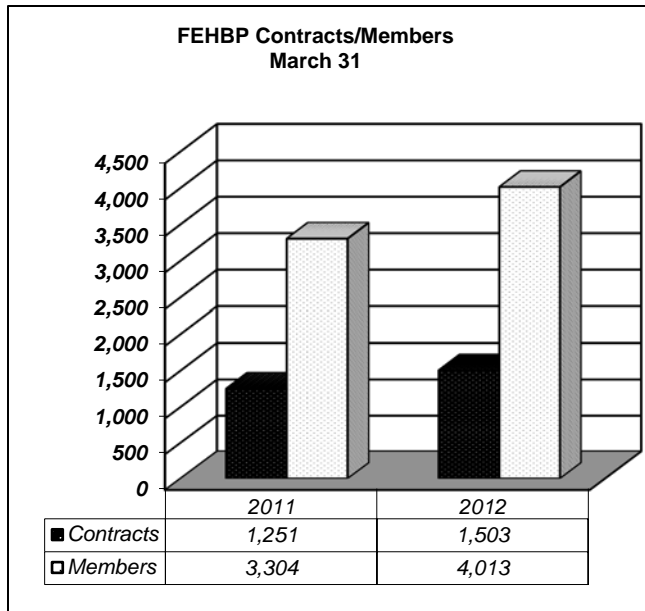
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office. 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



1995, and provides health benefits to FEHBP members in Eastern Michigan. The last full scope audit of the Plan conducted by our office covered contract years 2006 through 2010. That audit reported the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM's Rate Instructions to Community-Rated Carriers (rate instructions) for the years audited.

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

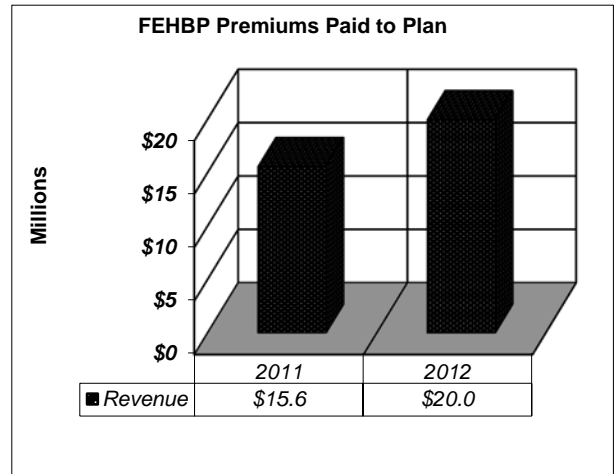
Objectives

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 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 the FEHBP premium rates developed and charged for contract years 2011 and 2012. For these contract years, the FEHBP paid approximately \$35.6 million in premiums to the Plan, as shown on the chart to the right.



OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the 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 SSSGs 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 Flint, Michigan during November 2013. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania and Jacksonville, Florida.

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 the rate instructions 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

1. Record Retention

The Plan did not comply with the record retention clause of its FEHBP contract. After several requests, the Plan could not provide sufficient and appropriate documentation to support the 2012 [REDACTED] rate development, one of its' SSSGs for that year. Although we ultimately developed audited rates using alternative methods, the FEHBP contract requires the Plan to retain and make available all records supporting its rate submissions for a period of six years after the end of the contract term to which the records relate.

Plan's Comments (see Appendix):

The Plan does not contest the finding of non-compliance with the record retention clause related to the 2012 [REDACTED] rate development.

Recommendation 1

We recommend that the contracting officer assess the maximum penalty allowed in the contract between OPM and the Plan for the Plan's breach of the record retention clause.

In addition, we recommend that the contracting officer inform the Plan that:

- OPM expects it to fully comply with the record retention provision of the contract and all applicable regulations;
- it should maintain copies of all pertinent rating documents that show the factors and calculations the Plan uses in developing the actual rates for the FEHBP and the groups closest in size to the FEHBP for each unaudited year; and
- the applicable community-rated performance factors described in FEHBAR 1609.7101-2 will be enforced if information requested during an audit is not provided.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Staff Auditor

██████████ Chief

██████████, Senior Team Leader

APPENDIX

Information deleted by the Office of the Inspector General. Not relevant to the report.

May 9, 2014



[Redacted] Management
Office of the Inspector General
800 Cranberry Woods Drive
Suite 270
Cranberry Township, Pennsylvania 16066

RE: Report No. 1C-X5-00-14-005

Dear [Redacted]

This letter is in response to Report No. 1C-X5-00-14-005, dated April 14, 2014, concerning the Office of the Inspector General's audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthPlus of Michigan, Inc. (HPM) for the contract years 2011 and 2012.

[Redacted] HPM
does not contest the findings of non-compliance with the record retention clause related to the 2012 [Redacted] rate development.

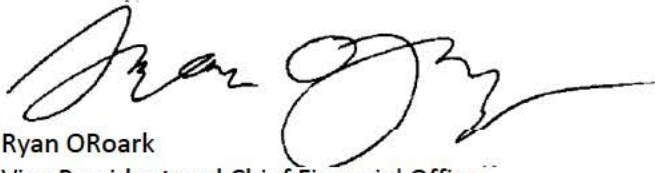
[Redacted]

[Redacted]

[REDACTED]

Please contact me at [REDACTED] or [REDACTED], at [REDACTED] for further discussions on this matter.

Sincerely,



Ryan O'Roark
Vice President and Chief Financial Officer
HealthPlus of Michigan

[REDACTED]