Final Audit Report

Subject:

Audit of the Federal Employees Health Benefits Program Operations at HealthSpan Integrated Care (formerly Kaiser Foundation Health Plan of Ohio)

Report No. 1C-64-00-13-060

Date: May 7, 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
HealthSpan Integrated Care
(formerly Kaiser Foundation Health Plan of Ohio)
Contract Number CS 1182 - Plan Code 64
Cleveland, Ohio

Report No. 1C-64-00-13-060 Date: May 7, 2014

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.
The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthSpan Integrated Care, formerly Kaiser Health Plan of Ohio (Plan). The audit covered contract years 2010 through 2013, and was conducted at the Plan’s office in Cleveland, Ohio.

This report questions $58,358 for inappropriate health benefit charges to the FEHBP in contract year 2013, including $856 for lost investment income, calculated through April 30, 2014. The inappropriate charges resulted from the Plan not capturing all of the FEHBP’s benefit loadings when they redistributed the rates between the high option and standard option.

We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management’s Rate Instructions to Community-Rated Carriers for contract years 2010 through 2012.
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EXECUTIVE SUMMARY</strong></td>
<td>i</td>
</tr>
<tr>
<td><strong>I. INTRODUCTION AND BACKGROUND</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>II. OBJECTIVES, SCOPE, AND METHODOLOGY</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>III. AUDIT FINDINGS AND RECOMMENDATIONS</strong></td>
<td>5</td>
</tr>
<tr>
<td>Premium Rate Review</td>
<td>5</td>
</tr>
<tr>
<td>1. Defective Pricing</td>
<td>5</td>
</tr>
<tr>
<td>2. Lost Investment Income</td>
<td>5</td>
</tr>
<tr>
<td><strong>IV. MAJOR CONTRIBUTORS TO THIS REPORT</strong></td>
<td>7</td>
</tr>
<tr>
<td>Exhibit A (Summary of Questioned Costs)</td>
<td></td>
</tr>
<tr>
<td>Exhibit B (Defective Pricing Questioned Costs)</td>
<td></td>
</tr>
<tr>
<td>Exhibit C (Lost Investment Income)</td>
<td></td>
</tr>
<tr>
<td>Appendix (HealthSpan Integrated Care’s February 26, 2014 response to the draft report)</td>
<td></td>
</tr>
</tbody>
</table>
I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthSpan Integrated Care, formerly Kaiser Health Plan of Ohio (Plan). The audit covered contract years 2010 through 2013, and was conducted at the Plan’s office in Cleveland, Ohio. For contract year 2013, the Plan is subject to the Medical Loss Ratio (MLR) rules and regulations. The audit was conducted pursuant to the provisions of Contract CS 1182; 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 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.

For contract years 2010 through 2012, 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. For contract year 2013, the premium rates charged to the FEHBP under the MLR methodology are to be developed in accordance with the Plan’s state-filed standard rating methodology (or if the rating methodology does not require state filing, the Plan’s documented and
established rating methodology). All FEHBP pricing data are to be sufficiently supported by accurate, complete, and current documentation. 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 Plan has participated in the FEHBP since 1985 and provides health benefits to FEHBP members in the Cleveland and Akron, Ohio Metropolitan Areas. The last audit conducted by our office covered contract years 2006 through 2009. All issues related to that audit have been 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 objective of this performance audit was to determine whether the Plan is in compliance with the provisions of its contract and the laws and regulations governing the FEHBP. In contract years 2010 through 2012, the primary objective was to determine if the Plan offered the FEHBP market price rates based on the rates given to the Similarly Sized Subscriber Groups (SSSGs). In contract year 2013, the primary objective was to determine if the Plan offered the FEHBP fair premium rates, based on its underwriting guidelines and OPM rules and regulations. We also verified 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 2010 through 2013. The audit did not include tests of the Plan’s 2013 MLR calculation which will remain subject to future audit. For these years, the FEHBP paid approximately $170.2 million in premiums to the Plan, as 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 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. For contract years 2010 through 2012, 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.

For contract year 2013, our review of internal controls was limited to the procedures the Plan has in place to ensure that the rates charged the FEHBP are developed in accordance with the Plan’s standard rating methodology and the claims, factors, trends, and other related adjustments are sufficiently supported by source documentation.

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 conducted at the Plan’s office located in Cleveland, Ohio. Additional audit work was conducted at our office in Jacksonville, Florida.

**Methodology**

For contract years 2010 through 2012, 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.

For contract year 2013, we examined the Plan’s standard rating methodology as a basis for validating its federal rate submissions and related documents. In addition, we verified that the factors, trends, and other related adjustments used to determine the FEHBP premium rates were supported by accurate, complete and current source data.

We also examined claim payments to verify that the pricing data used to develop the FEHBP rates was accurate, complete and valid. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations, 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

Premium Rate Review

1. **Defective Pricing** $57,502

   The Certificate of Accurate Pricing (MLR methodology) the Plan submitted for contract year 2013 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 $57,502 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the rate instructions in contract years 2010 through 2012.

   For contract year 2013, carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing (MLR methodology) certifying that the cost or pricing data submitted to OPM in support of the FEHBP rates are accurate, complete, and current as of the date of the certificate. If it is found that the FEHBP was charged higher rates due to inaccurate, incomplete or non-current data, a condition of defective pricing exists, requiring a downward adjustment of the FEHBP premiums.

   **2013**

   Our analysis of the FEHBP rates shows that the Plan incorrectly redistributed the rates between the high option and the standard option. The error was a result of the Plan not capturing all of the FEHBP’s benefit loadings in the rate redistribution calculation. Due to this error, the Plan's redistribution of the rates was not revenue neutral. In calculating our audited rates, we did not redistribute the premium.

   A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged $32,189 for the high option, and $25,313 for the standard option. Total FEHBP overcharges amount to $57,502 in contract year 2013 (see Exhibit B).

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

   The Plan agrees with the audit finding for contract year 2013.

   **Recommendation 1**

   We recommend that the contracting officer require the Plan to return $57,502 to the FEHBP for defective pricing in contract year 2013.

2. **Lost Investment Income** $856

   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 2013. We determined that the FEHBP is due $856 for lost investment income,
calculated through April 30, 2014 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning May 1, 2014, 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 were not accurate, complete, 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 did not respond to our lost investment income finding.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return $856 to the FEHBP for lost investment income, calculated through April 30, 2014. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning May 1, 2014, until all defective pricing amounts have been returned to the FEHBP.
IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[Redacted], Auditor-in-Charge

[Redacted], Lead Auditor

[Redacted], Jr., Chief

[Redacted], Senior Team Leader
**HealthSpan Integrated Care**  
(formerly Kaiser Foundation Health Plan of Ohio)  
Summary of Questioned Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defective Pricing Questioned Costs:</td>
<td></td>
</tr>
<tr>
<td>Contract Year 2013</td>
<td>$57,502</td>
</tr>
<tr>
<td><strong>Total Defective Pricing Questioned Costs</strong></td>
<td><strong>$57,502</strong></td>
</tr>
<tr>
<td>Lost Investment Income</td>
<td>$856</td>
</tr>
<tr>
<td><strong>Total Questioned Cost</strong></td>
<td><strong>$58,358</strong></td>
</tr>
</tbody>
</table>
HealthSpan Integrated Care  
(formerly Kaiser Foundation Health Plan of Ohio)  
Defective Pricing Questioned Costs

**Contract Year 2013 - High Option**

<table>
<thead>
<tr>
<th>Plan's Reconciled Line 5 Rates</th>
<th>Single</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited Line 5 Rates</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Bi-weekly Result

March 31, 2013 Enrollment  
x 26 pay period

Amount Due FEHBP in 2013 - High Option  
$32,189

**Contract Year 2013 - Standard Option**

<table>
<thead>
<tr>
<th>Plan's Reconciled Line 5 Rates</th>
<th>Single</th>
<th>Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited Line 5 Rates</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Bi-weekly Result

March 31, 2013 Enrollment  
x 26 pay period

Amount Due FEHBP in 2013 - Standard Option  
$25,313

**Total Defective Pricing Questioned Cost**  
$57,502
### HealthSpan Integrated Care
(formerly Kaiser Foundation Health Plan of Ohio)
Lost Investment Income

<table>
<thead>
<tr>
<th>Year Audit Findings:</th>
<th>2013</th>
<th>Through April 30, 2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defective Pricing</td>
<td>$57,502</td>
<td>$0</td>
<td>$57,502</td>
</tr>
<tr>
<td>Totals (per year):</td>
<td>$57,502</td>
<td>$0</td>
<td>$57,502</td>
</tr>
<tr>
<td>Cumulative Totals:</td>
<td>$57,502</td>
<td>$57,502</td>
<td>$57,502</td>
</tr>
<tr>
<td>Average Annual Interest Rate:</td>
<td>1.5625%</td>
<td>2.1250%</td>
<td></td>
</tr>
<tr>
<td>Interest on Prior Years Findings:</td>
<td>$0</td>
<td>$407</td>
<td>$407</td>
</tr>
<tr>
<td>Current Years Interest:</td>
<td>$449</td>
<td>$0</td>
<td>$449</td>
</tr>
<tr>
<td>Total Cumulative Interest Through April 30, 2014</td>
<td>$449</td>
<td>$407</td>
<td>$856</td>
</tr>
</tbody>
</table>
February 26, 2014

[Address]

Dear [Name],

This letter responds to your correspondence of February 4, 2014 which enclosed a Draft of a Proposed Report on the operations of HealthSpan Integrated Care (formerly Kaiser Health Plan of Ohio) (“Plan”) for contract years 2010 through 2013 under the FEHBP (“Draft Report”).

The February 4, 2014, correspondence was directed to the President of the Plan. However, this response is being tendered by the Contracting Official on behalf of the Plan as required. In the future please continue to direct all written correspondence related to this audit to the President of the Plan with a copy to me.

This response addresses the concerns outlined in the Draft Report and provides a basis for resolution of the Draft Report’s initial findings. The Plan further intends for this response to aid OPM in developing a complete and accurate understanding regarding the Plan’s pricing actions during the contract years in question. The document also illustrates changes in the Plan’s internal controls designed to ensure that the FEHBP continues to be charged the market rate.

I. REVIEW OF AUDIT FINDINGS

A. Summary of Draft Report findings

The Draft Report questioned a total net amount of $57,951 for alleged defective pricing overcharges in contract year 2013, including lost invest income of $449 on the defective pricing overcharges amounts. The Draft Report asserted that in 2013, the Plan did not give FEHBP the same rate advantage it gave to an SSSG. These alleged overcharges amounted to $32,189 and $25,313 for the high and standard options, respectively.

B. Response to Draft Report findings
This response provides information to address and resolve the concerns expressed in the Draft Report and concur with the Draft Report’s recommendations. We would be pleased to provide any additional information that would help satisfy the concerns noted in the Draft Report.

II.  DRAFT REPORT FINDINGS FOR YEAR 2013

A. The Plan agrees with the Draft Report’s findings for 2013 concerning the inappropriate pricing.

The Draft Report concluded that in 2013, the Plan incorrectly redistributed the rates between the high option and the standard option plans.

The Plan overcharged FEHBP by not capturing all of FEHBP’s benefit loadings in the rate redistribution calculation.

III.  THE PLAN COMMITS TO IMPROVE CONTROLS IN RESPONSE TO AUDIT FINDINGS.

The Plan is committed to serving the federal government with excellence and integrity. As a result of the Draft Report’s preliminary findings and the analysis the Plan performed in preparing its Response, the Plan is actively assessing internal controls associated with following applicable contract provisions and insuring the FEHBP receives equitable and reasonable market price rates. Controls being assessed and improved include, but are not limited to rating policies; pricing methodologies; quality assurance; and appropriate review and authorization. The focus of the majority of the improvements is to ensure that in preparing rates, the Plan applies the appropriate loadings and credits.

Once new controls and improvements are aligned with existing controls, management monitoring mechanisms will be implemented. Timely remediation of expectations will be established to insure appropriate resolution. Ongoing concurrent critique of processes, policies, and guidelines will be part of the controls the Plan implements.

IV.  CONCLUSION

The Plan has reviewed and concurred with OIG’s findings, has implemented corrective actions, and respectfully requests OIG to accept the repayment as outlined above. We appreciate the time you have given us to submit this response and look forward to its prompt resolution. Please do not hesitate to contact me if you have any questions or need any additional information. I can be reached at [contact information].
Appendix

Page 3

cc: [Redacted]

Chief, Health Insurance Group III
Office of Personnel Management

Kenneth C. Page
President
HealthSpan Integrated Care

Regards,

[Redacted]

Manager, Government Programs