



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

Final Audit Report

**AUDIT OF THE FEDERAL EMPLOYEES HEALTH
BENEFITS PROGRAM OPERATIONS AT
GLOBALHEALTH, INC.**

Report Number 1C-IM-00-15-032

March 31, 2016

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EXECUTIVE SUMMARY

Audit of the Federal Employees Health Benefits Program Operations at GlobalHealth, Inc.

Report No. 1C-IM-00-15-032

March 31, 2016

Why Did We Conduct The Audit?

The primary objectives of the audit were to determine if GlobalHealth, Inc. (Plan) developed the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current data, and that the rates were equivalent to the Plan's Similarly-Sized Subscriber Groups (SSSGs), as provided in Federal Employees Health Benefits Acquisition Regulation 1652.215-70(a). Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

What Did We Audit?

Under contract 2893, the Office of the Inspector General completed a performance audit of the FEHBP's rates offered for contract years 2011 and 2012. Our audit fieldwork was conducted from July 13, 2015, through July 17, 2015, at the Plan's office in Oklahoma City, Oklahoma.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

This report questions \$378,002 for inappropriate health benefit charges to the FEHBP in contract year 2011. The questioned amount includes \$345,372 for defective pricing and \$32,630 due to the FEHBP for lost investment income, calculated through February 29, 2016. Specifically, our audit identified the following:

- In contract year 2011, the Plan incorrectly calculated the FEHBP's step-up factor by applying incorrect enrollment data to the calculation. Additionally, the Plan did not apply a [REDACTED] percent SSSG discount to the FEHBP rates. Both errors resulted in a \$345,372 overcharge to the FEHBP.
- The FEHBP is also due \$32,630 for lost investment income, calculated through February 29, 2016, on the defective pricing finding. In addition, we recommend that the contracting officer recover lost investment income starting March 1, 2016, until all defective pricing amounts have been returned to the FEHBP.

We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rules and regulations in contract year 2012.

ABBREVIATIONS

FEHBAR	Federal Employees Health Benefits Program Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	GlobalHealth, Inc.
SSSGs	Similarly-Sized Subscriber Groups
U.S.C.	United States Code

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
ABBREVIATIONS	ii
I. BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	5
1. Defective Pricing	5
2. 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 (GlobalHealth, Inc.'s response to the draft report, received on January 19, 2016)	
REPORT FRAUD, WASTE, AND MISMANAGEMENT	

I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at GlobalHealth, Inc. (Plan). The audit covered contract years 2011 and 2012, and was conducted at the Plan's office in Oklahoma City, Oklahoma.

The audit was conducted pursuant to FEHBP contract CS 2893; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations Chapter 1, Part 890. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

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, and is administered by OPM's Healthcare and Insurance Office. Health insurance coverage is provided through contracts with health insurance carriers who provide service benefits, indemnity benefits, or comprehensive medical services.

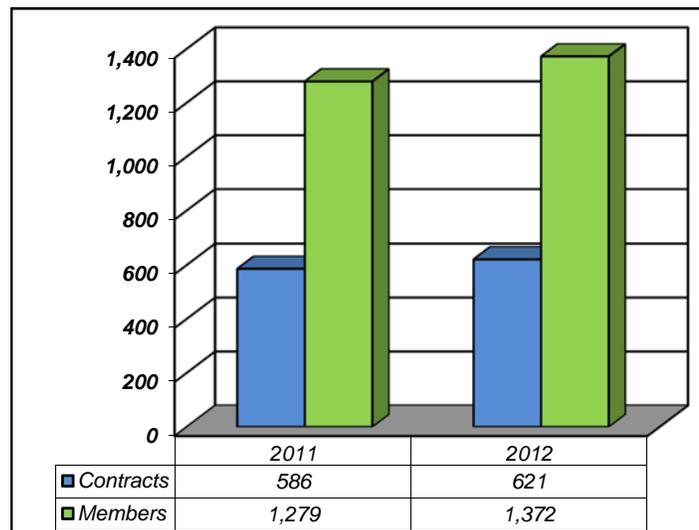
Community-rated carriers participating in the FEHBP are subject to various federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., 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 premium rate that is equivalent to the best rate given 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 2005 and provides health benefits to FEHBP members in the State of Oklahoma. The last full scope audit of the Plan conducted by our office covered contract years 2006 through 2010 and identified three procedural

FEHBP Contracts/Members
March 31



issues. Based on the Plan's provided documentation, OPM's Audit Resolution Group closed the recommendations.

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 are included, as appropriate, as the Appendix to the report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

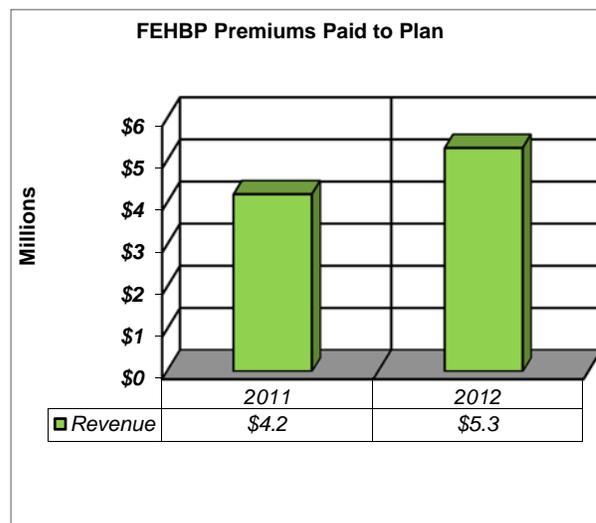
Objectives

The primary objectives of the audit were to determine if the FEHBP premium rates were developed using complete, accurate and current data, and were equivalent to the Plan's Similarly-Sized Subscriber Groups (SSSGs), as provided in the Federal Employees Health Benefits Acquisition Regulation (FEHBAR) 1652.215-70(a). 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 2011 and 2012. For these years, the FEHBP paid approximately \$9.5 million in premiums to the Plan.



OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the Rate Instructions to Community-Rated Carriers (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 developed using complete, accurate and current data, and were equivalent to the best rate given 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 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 from July 13, 2015, through July 17, 2015, at the Plan's office in Oklahoma City, Oklahoma.

Methodology

We examined the Plan's federal rate submission and related documents as a basis for validating its Certificates of Accurate Pricing. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the FEHBP rates were reasonable and equitable. Finally, we used the contract, the 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. Defective Pricing

\$345,372

The Certificate of Accurate Pricing the Plan signed for contract year 2011 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 of \$345,372 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rules and regulations in contract year 2012.

The Plan miscalculated the FEHBP's step-up factor and did not apply an SSSG discount, resulting in a \$345,372 overcharge in contract year 2011.

FEHBAR 1652.215-70 provides that 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., 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.

2011

The Plan selected the [REDACTED] as an SSSG for contract year 2011. We agree with this selection.

The Plan incorrectly calculated the step-up factor for the FEHBP. The Plan used [REDACTED] single contracts and [REDACTED] family contracts instead of [REDACTED] single contracts and [REDACTED] family contracts in the calculation. Consequently, we replaced the Plan's derived [REDACTED] step-up factor with our audited [REDACTED] step-up factor. Additionally, the rates charged to the SSSG showed that the [REDACTED] received a [REDACTED] percent discount, which was not applied to the FEHBP's reconciled rates. Because the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we recalculated the FEHBP's rates using the [REDACTED] percent discount given to the [REDACTED] and our audited [REDACTED] step-up factor. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged \$345,372 in contract year 2011 (see Exhibit B).

Plan Comments (see Appendix):

The Plan does not dispute the audit findings.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$345,372 to the FEHBP for defective pricing in contract year 2011.

2. Lost Investment Income

\$32,630

In accordance with 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 2011. We determined the FEHBP is due \$32,630 for lost investment income, calculated through February 29, 2016 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning March 1, 2016, until all defective pricing amounts have been returned to the FEHBP.

The FEHBP is due \$32,630 in lost investment income due to FEHBP overcharges.

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 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 Comments (see Appendix):

The Plan does not dispute the audit findings.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$32,630 to the FEHBP for lost investment income, calculated through February 29, 2016. We also recommend that the contracting officer recover lost investment income on amounts due for the period

beginning March 1, 2016, 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], Auditor

[REDACTED], Senior Team Leader

[REDACTED], Senior Team Leader

[REDACTED], Group Chief

EXHIBIT A

GlobalHealth, Inc. Summary of Questioned Costs

Defective Pricing Questioned Costs

Contract Year 2011	<u>\$345,372</u>	
Total Defective Pricing Questioned Costs		\$345,372
Lost Investment Income		<u>\$32,630</u>
Total Questioned Costs		<u>\$378,002</u>

EXHIBIT B

GlobalHealth, Inc. Defective Pricing Questioned Costs

Contract Year 2011

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	\$ [REDACTED]	\$ [REDACTED]	
FEHBP Line 5 - Audited Rate	\$ [REDACTED]	\$ [REDACTED]	
Bi-weekly Overcharge	\$ [REDACTED]	\$ [REDACTED]	
To Annualize Overcharge:			
March 31, 2011 enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$ [REDACTED]	\$ [REDACTED]	<u>\$345,372</u>
Total Defective Pricing Questioned Costs			<u>\$345,372</u>

EXHIBIT C

GlobalHealth, Inc. Lost Investment Income

Year	2011	2012	2013	2014	2015	29-Feb-16	Total
Audit Findings:							
1. Defective Pricing	\$345,372	\$0	\$0	\$0	\$0	\$0	\$345,372
Totals (per year):	\$345,372	\$0	\$0	\$0	\$0	\$0	\$345,372
Cumulative Totals:	\$345,372	\$345,372	\$345,372	\$345,372	\$345,372	\$345,372	\$345,372
Avg. Interest Rate (per year):	2.5625%	1.8750%	1.5625%	2.0625%	2.2500%	2.5000%	
Interest on Prior Years Findings:	\$0	\$6,476	\$5,396	\$7,123	\$7,771	\$1,439	\$28,205
Current Years Interest:	\$4,425	\$0	\$0	\$0	\$0	\$0	\$4,425
Total Cumulative Interest Calculated Through February 29, 2016:	\$4,425	\$6,476	\$5,396	\$7,123	\$7,771	\$1,439	\$32,630

APPENDIX



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Received as an email attachment on January 19, 2016. [REDACTED]

January 18, 2016

U.S. Office of Personnel Management
Office of the Inspector General
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To Whom It May Concern:

We have reviewed the Draft Audit Report dated December 4, 2015, regarding the Audit of the Federal Employee Health Benefits Program Operations at GlobalHealth, Inc. for contract years 2011 and 2012. We do not dispute the findings identified for contract year 2011. No findings were identified for contract year 2012.

Sincerely,

Tayla Harris, CPA
SVP, Chief Financial Officer
GlobalHealth, Inc.



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