



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 New West Health Services

Report No. 1C-NV-00-11-047

Date: June 4, 2012

-- 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.



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
New West Health Services
Contract Number CS 2873 - Plan Code NV
Helena, Montana**

Report No. 1C-NV-00-11-047

Date: June 4, 2012

A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

**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.



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
New West Health Services
Contract Number CS 2873 - Plan Code NV
Helena, Montana**

Report No. 1C-NV-00-11-047

Date: June 4, 2012

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at New West Health Services (Plan). The audit covered contract years 2006 through 2011 and was conducted at the Plan's office in Helena, Montana.

This report questions \$1,113,485 for inappropriate health benefit charges to the FEHBP in contract years 2006, 2007, 2009, and 2011. The questioned amount includes \$996,943 for defective pricing and \$116,542 due the FEHBP for lost investment income, calculated through March 31, 2012. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2008 and 2010.

In contract years 2006, 2007, 2009, and 2011, the Plan gave a similarly sized subscriber group (SSSG) a discount; however, the same discount was not given to the FEHBP. In addition, we found errors and inconsistencies in the Plan's FEHBP rate developments. Adjusting the FEHBP rates for these errors, and applying the SSSG discount to our audited rates, results in overcharges to the FEHBP of \$172,495; \$271,495; \$170,141; and \$382,812 in 2006, 2007, 2009, and 2011, respectively. Consistent with the FEHBP regulations and contract, the FEHBP is due \$116,542 for lost investment income, calculated through March 31, 2012 on the defective pricing finding.

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. Lost Investment Income.....	11
IV. MAJOR CONTRIBUTORS TO THIS REPORT	13
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	
Appendix (New West Health Services' February 10, 2012, response to the draft report)	

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at New West Health Services (Plan). The audit covered contract years 2006 through 2011, and was conducted pursuant to the provisions of Contract CS 2873; 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.

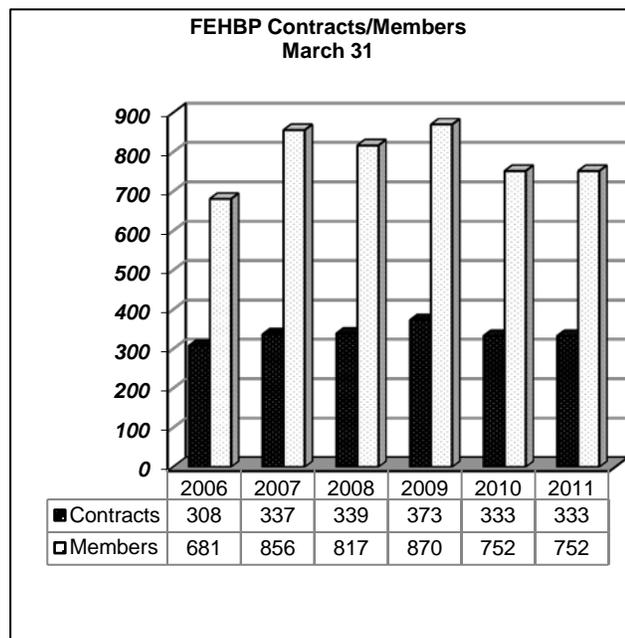
Background

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.¹



¹ The Plan reported 852 contracts as of March 31, 2006. OPM's contracts were used for this year.

The Plan has participated in the FEHBP since 2003 and provides health benefits to FEHBP members throughout most of Montana. This is our first audit of the Plan.

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 on December 15, 2011 for review and comment. The Plan's comments were considered in the preparation of this report and are included, as appropriate, as the Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

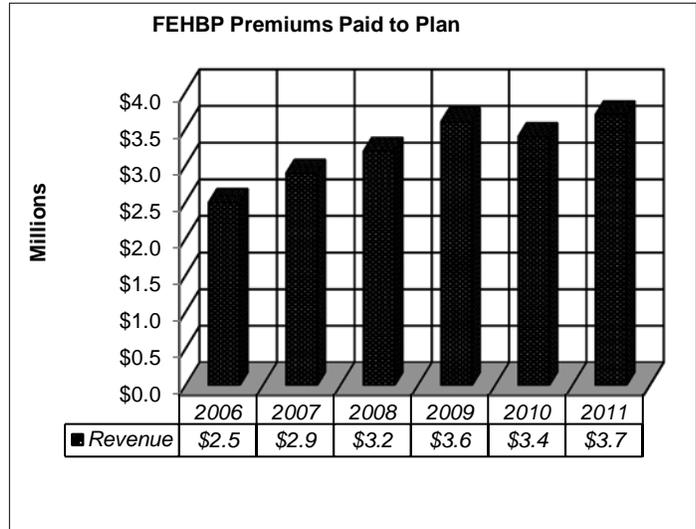
Objectives

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 2006 through 2011. For these contract years, the FEHBP paid approximately \$19.3 million in premiums to the Plan. The premiums paid for each contract year audited are 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 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 and enrollment 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 in July 2011, and additional audit work was completed at our offices located 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, 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

\$996,943

The Certificates of Accurate Pricing New West Health Services (Plan) signed for contract years 2006, 2007, 2009, and 2011 were defective. In accordance with federal regulations, the Federal Employees Health Benefits Program (FEHBP) is therefore due a rate reduction for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$996,943 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's (OPM) rules and regulations in contract years 2008 and 2010.

Federal Employees Health Benefits Acquisition Regulations (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 a similarly sized subscriber group (SSSG). If it is found that the FEHBP was charged higher than a 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.

2006

We agree with the Plan's selection of [REDACTED] and [REDACTED] as the SSSGs for contract year 2006. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount. The Plan did not apply a discount to the FEHBP rates.

In developing our [REDACTED] audited rates, we determined that the Plan used incorrect base rates in its manual rate calculations. The Plan used [REDACTED] per-member-per-month (PMPM) for the medical base rate, and [REDACTED] PMPM for the pharmacy base rate. However, the Plan's supporting documentation shows a medical base rate of [REDACTED] PMPM, and a pharmacy base rate of [REDACTED] PMPM. When comparing our audited rates to the group's billed rates, we found that [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 our FEHBP audited rates for contract year 2006.

In developing our FEHBP audited rates, we noted that the Plan applied a [REDACTED] benefit adjustment factor to the FEHBP rates. Our benefit comparison shows no significant changes in the FEHBP benefits between contract years 2005 and 2006. Therefore, we disallowed this factor and used a factor of [REDACTED] in the FEHBP rates. Additionally, the Plan incorrectly used a [REDACTED] percent experience credibility factor in its FEHBP rate development. Support shows the FEHBP should have received [REDACTED] percent credibility. Finally, we disallowed a Consolidated

Omnibus Reconciliation Act (COBRA) loading since the FEHBP does not receive these services from the Plan.

We recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED] and making the above noted corrections. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged \$172,495 in contract year 2006 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan disagrees with our selection of [REDACTED] as an SSSG. The Plan argues that the group had a retrospective rating agreement and is ineligible for SSSG consideration. The Plan states that [REDACTED] is the correct SSSG.

The Plan also disagrees with the elimination of the [REDACTED] benefit adjustment factor. The Plan states that this factor is used because of significant benefit design changes to the FEHBP plan.

The Plan concurs with our COBRA finding and our credibility factor finding. The Plan's calculations indicate that the 2006 questioned costs should be \$49,693.

OIG's Comments:

We disagree with the Plan's argument that [REDACTED] is ineligible as an SSSG because it has a retrospective rating agreement. [REDACTED] agreement does not contain any elements of a retrospective agreement. Rather, the agreement is a rate stabilization reserve (RSR) agreement. An RSR account is to be funded from [REDACTED] premiums at [REDACTED] percent of annual premium. The RSR account is a Plan asset and is available for use only in conjunction with [REDACTED] rate renewal calculation. The RSR account may or may not be used in any given year. The agreement states the Plan will retain any remaining RSR funds when the group terminates. There is no cost or risk sharing clauses in the agreement and no retrospective settlement of claims versus premiums. In our opinion, the RSR agreement is not a retrospective agreement and [REDACTED] was correctly selected as an SSSG.

The Plan did not comment on our finding that the incorrect base rates were used in [REDACTED] manual rate calculation. We continue to maintain the incorrect base rates were used and [REDACTED] received a [REDACTED] percent discount in contract year 2006.

Regarding the [REDACTED] benefit adjustment factor, the Plan provided a list of the benefit design changes it claims affected the FEHBP 2006 contract year. We compared this listing to the 2006 FEHBP benefit brochure and found the following three changes listed in the FEHBP brochure:

- Expanded coverage for inpatient newborn care,
- Added coverage for diabetic counseling, and
- Increased coverage for cataract related benefits.

The Plan's listing included more than these three changes, however it did not contain any analysis showing how the benefit changes equate to a [REDACTED] percent increase in cost. In fact, for the first two benefit changes listed above, the Plan's document states the increased benefit will not result in an increase of insurance rates. For the third benefit change, the Plan's document does not indicate what impact it has on the rates.

In addition, the Plan's documentation shows all three changes were effective January 1, 2005. The FEHBP experience period for contract year 2006 is May 1, 2004 through April 30, 2005. As such, part of these changes are reflected in the claims data used to develop the FEHBP rates for 2006. We did not see any evidence the Plan took this into account. The Plan did not provide any actuarial or financial data used to support the [REDACTED] benefit adjustment factor. We continue to maintain that the changes to the FEHBP benefit package were immaterial. Our audited FEHBP rates do not include the [REDACTED] benefit adjustment factor.

2007

The Plan selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2007. We agree with the selection of [REDACTED] but disagree with the selection of [REDACTED]. We determined the Plan's 2007 agreement with [REDACTED] is a retrospective experience-rated agreement and therefore ineligible for SSSG selection. We selected [REDACTED] as the other SSSG because it is the next eligible group closest in size to the FEHBP. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] percent discount, while [REDACTED] did not receive a discount. The Plan did not apply a discount to the FEHBP rates.

In developing our [REDACTED] audited rates, the Plan was unable to support a \$281,404 large claim amount used in the group's original rate development. The information provided on-site supported a large claim amount of \$225,154. Therefore, we used the amount supported in our audited rates. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [REDACTED] percent discount given to [REDACTED] to our FEHBP audited rates for contract year 2007.

In developing our FEHBP audited rates, we again disallowed the COBRA loading since the FEHBP does not receive these services from the Plan.

We recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED] and making the above noted corrections. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged \$271,495 in contract year 2007 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan concurs with our COBRA finding and the large claim amount used in [REDACTED] rate development. However, the Plan disagrees with our calculation of questioned costs. It indicates that the overcharge associated with the COBRA loading is [REDACTED] percent and

the large claim error would result in a [REDACTED] percent discount to [REDACTED]. The Plan's calculations indicate that the 2007 questioned costs should be \$92,992.

OIG's Comments:

In its response to our draft report, the Plan used \$226,894 as its large claim amount rather than the \$225,154 supported in our audit. The Plan did not provide any additional support for the large claim amount used in its rate development. We continue to use the supported amount of \$225,154 in our [REDACTED] audited rate.

The Plan calculated its [REDACTED] percent discount at the PMPM level. Our [REDACTED] discount of [REDACTED] percent is based on the difference between total audited premium and the actual billed premium charged by the Plan. Our method captures the true discount given to the group. We maintain that [REDACTED] received a [REDACTED] percent discount.

2009

The Plan selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2009. We agree with the selection of [REDACTED] but disagree with the selection of [REDACTED]. We did not select [REDACTED] due to the size of the group. We selected [REDACTED] as the other SSSG because it is the next eligible group closest in size to the FEHBP. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] percent discount, while [REDACTED] received an [REDACTED] percent discount.

In developing our [REDACTED] audited rates, we determined that the Plan used incorrect base rates in its manual rate calculations. The Plan used \$ [REDACTED] PMPM for the medical base rate, and [REDACTED] PMPM for the pharmacy base rate. However, the Plan's supporting documentation shows a medical base rate of [REDACTED] PMPM, and a pharmacy base rate of [REDACTED] PMPM. Additionally, the Plan used a manual rate trend factor of [REDACTED] which was incorrectly based on a 15-month trend. Our audited trend factor was [REDACTED] which was correctly based on a 25-month trend. Finally, the Plan incorrectly applied a [REDACTED] percent credibility factor. Based on supporting documentation, the correct credibility factor is [REDACTED] percent. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [REDACTED] percent discount given to [REDACTED] to our FEHBP audited rates for contract year 2009.

In developing our FEHBP audited rates, the Plan was unable to support a \$492,763 large claim amount used in the group's original rate development. The information provided on-site supported a large claim amount of \$500,244. Therefore, we used the amount supported in our audited rates. In addition, we noted that [REDACTED] received the lowest trend factor of [REDACTED] percent for both medical and pharmacy. The FEHBP received trend factors of [REDACTED] percent for medical, and [REDACTED] percent for pharmacy. We used the [REDACTED] percent trend in our FEHBP audited rates.

We recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED] and making the above noted corrections. A comparison of our audited rates to the

Plan's reconciled rates shows that the FEHBP was overcharged \$170,141 in contract year 2009 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan concurs with our selection of [REDACTED] as an SSSG. The Plan also concurs that the FEHBP should receive the lower trend factor received by [REDACTED]

The Plan argues that [REDACTED] received the correct credibility factor because a significant plan design change was made. The Plan also offered the group a dual option which resulted in a revised rate calculation. It states that no discount was applied to [REDACTED] and the only factor affected was the lower trend which they agree to apply to the FEHBP rates. The Plan claims that when the lower trend factor is applied to the FEHBP rate calculation it results in a [REDACTED] percent discount. The Plan also claims that the FEHBP already received the largest discount, and any further discount is not reasonable. The Plan's calculations indicate that the 2009 questioned costs should be \$16,825.

OIG's Comments:

The Plan did not comment on our findings that incorrect base rates and the incorrect trend months were used in [REDACTED] rate development. We continue to maintain that the incorrect base rates and incorrect trend months were used.

We disagree with the Plan's comments regarding [REDACTED] credibility factor. This group had more than 24 months of claims experience and over 125 current subscribers. Based on the Plan's credibility table, the credibility factor should be [REDACTED] percent. The Plan did not provide any analysis showing the changes in [REDACTED] plan design, or the impact of such changes on the credibility table. In addition, the Plan did not provide evidence this is part of its rating practice or guidelines. Based on the Plan's credibility table, we continue to use a credibility factor of [REDACTED] percent for [REDACTED]

The Plan did not comment on the unsupported large claim amount used in the FEHBP rates. We maintain the correct large claim amount is \$500,244. We continue to use this large claim amount, the lower trend factors and the [REDACTED] percent discount provided to [REDACTED]

2011

The Plan selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2011. We agree with the selection of [REDACTED] but disagree with the selection of [REDACTED]. We selected [REDACTED] as the other SSSG. [REDACTED] was not selected by the Plan as an SSSG because it considers the group a provider partner. During our audit, we determined [REDACTED] was not a provider partner and was eligible for SSSG selection. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] percent discount, while [REDACTED] received an [REDACTED] percent discount. The Plan applied a [REDACTED] percent discount to the FEHBP rates.

In developing our [REDACTED] audited rates, the Plan was unable to support the [REDACTED] in medical claims and [REDACTED] in pharmacy claims used in the group's rate development. Based on the support provided by the Plan, we used [REDACTED] in medical claims and [REDACTED] in pharmacy claims in our audited rate development. In addition, we determined the Plan applied an incorrect state benefit mandate factor of [REDACTED]. The support indicates the correct factor is [REDACTED], which also matches the factor applied to the FEHBP. We applied the correct factor of [REDACTED] to our audited rates. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [REDACTED] percent discount given to [REDACTED] to our FEHBP audited rates for contract year 2011.

In developing our FEHBP audited rates, we noted that the Plan inconsistently applied a [REDACTED] percent medical and pharmacy trend to the FEHBP. Both SSSGs received a more favorable trend of [REDACTED] percent for medical and [REDACTED] percent for pharmacy. In order to ensure the FEHBP receives a market price rate, we adjusted the FEHBP trend factors for medical and pharmacy to equal that of the SSSGs.

We recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED] and making the above noted corrections. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged \$382,812 in contract year 2011 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan disagrees with our selection of [REDACTED] as an SSSG. It claims [REDACTED] owns [REDACTED] percent of [REDACTED] and is therefore considered an owner/provider partner. Further, [REDACTED] should be excluded as an SSSG because it operates under a comprehensive, interconnected management agreement with [REDACTED]. The Plan stated the following reasons why [REDACTED] should be excluded as an SSSG:

- a. [REDACTED] signed a management agreement with [REDACTED] in May 2002 which continues to remain in effect;
- b. The Chief Executive Officer of [REDACTED] is an employee of [REDACTED] with dual roles of responsibility to [REDACTED] and the Board of Directors for [REDACTED];
- c. The Practice Manager of [REDACTED] is an employee of [REDACTED];
- d. [REDACTED] participates in [REDACTED] Professional liability captive;
- e. [REDACTED] provides [REDACTED] with group supply purchasing power as well as capital purchase savings, financial systems, and electronic medical records system; and,

- f. [REDACTED] maintains operative, management, and financial decision making control over [REDACTED]

The Plan claims that it excluded [REDACTED] from SSSG consideration appropriately because of the multiple and tight linkages between the two organizations. The Plan asserts there should be no findings for this year.

OIG's Comments:

We disagree with the Plan's comments that [REDACTED] should be excluded as an SSSG due to it being a provider partner. The determination of a group's potential for SSSG selection is based on the groups' relationship to the Plan. Our review determined that [REDACTED] was not a provider partner to the Plan and we continue to maintain that [REDACTED] is eligible for SSSG selection. The relationship between [REDACTED] and [REDACTED] has no bearing on [REDACTED] SSSG status. The agreements provided by the Plan show [REDACTED] provides services to [REDACTED] for an agreed upon amount of compensation. As confirmed by the Plan, [REDACTED] has no ownership interest in [REDACTED]. We maintain the [REDACTED] is the correct SSSG and was given an [REDACTED] percent discount.

The Plan did not comment on the findings related to the unsupported medical and pharmacy claims amount and incorrect state benefit mandate factor used in [REDACTED] rates, or the inconsistent trend factors used for the FEHBP rates. Our audited FEHBP rate is based on using the lower trend factor and the [REDACTED] discount given to [REDACTED]

Recommendation 1

We recommend that the contracting officer require the Plan to return \$996,943 to the FEHBP for defective pricing in contract years 2006, 2007, 2009, and 2011.

2. Lost Investment Income

\$116,542

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 findings in contract years 2006, 2007, 2009, and 2011. We determined that the FEHBP is due \$116,542 for lost investment income, calculated through March 31, 2012 (see Exhibit C).

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 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 did not comment on our lost investment income finding.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$116,542 to the FEHBP for lost investment income, calculated through March 31, 2012. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning April 1, 2012, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-in-Charge

██████████, Auditor

██████████ Chief

██████████, Senior Team Leader

Exhibit A

**New West Health Services
Summary of Questioned Costs**

Defective Pricing Questioned Costs

Contract Year 2006	\$172,495
Contract Year 2007	\$271,495
Contract Year 2009	\$170,141
Contract Year 2011	<u>\$382,812</u>

Total Defective Pricing Questioned Costs **\$996,943**

Lost Investment Income: **\$116,542**

Total Questioned Costs **\$1,113,485**

New West Health Services
Defective Pricing Questioned Costs

2006

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Overcharge	████████	████████	
To Annualize Overcharge:			
3/31/2006 enrollment	██	██	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	████████	████████	
Total 2006 Defective Pricing Questioned Costs			\$172,495

2007

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Overcharge	████████	████████	
To Annualize Overcharge:			
3/31/2007 enrollment	██	██	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	████████6	████████	
Total 2007 Defective Pricing Questioned Costs			\$271,495

New West Health Services
Defective Pricing Questioned Costs

2009

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	█	█	
FEHBP Line 5 - Audited Rate	█	█	
Overcharge	█	█	
To Annualize Overcharge:			
3/31/2009 enrollment	█	█	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	█	█	
Total 2009 Defective Pricing Questioned Costs			\$170,141

2011

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	█	█	
FEHBP Line 5 - Audited Rate	█	█	
Overcharge	█	█	
To Annualize Overcharge:			
3/31/2011 enrollment	█	█	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	█	█	
Total 2011 Defective Pricing Questioned Costs			<u>\$382,812</u>
Total Defective Pricing Questioned Costs			<u>\$996,943</u>

EXHIBIT C

**New West Health Services
Lost Investment Income**

Year	2006	2007	2008	2009	2010	2011	31-Mar-12	Total
Audit Findings:								
1. Defective Pricing	\$172,495	\$271,495	\$0	\$170,141	\$0	\$382,812	\$0	\$996,943
Totals (per year):	\$172,495	\$271,495	\$0	\$170,141	\$0	\$382,812	\$0	\$996,943
Cumulative Totals:	\$172,495	\$443,990	\$443,990	\$614,131	\$614,131	\$996,943	\$996,943	\$996,943
Avg. Interest Rate (per year):	5.4375%	5.5000%	4.9375%	5.2500%	3.1875%	2.5625%	2.0000%	
Interest on Prior Years Findings:	\$0	\$9,487	\$21,922	\$23,309	\$19,575	\$15,737	\$4,985	\$95,015
Current Years Interest:	\$4,690	\$7,466	\$0	\$4,466	\$0	\$4,905	\$0	\$21,527
Total Cumulative Interest Calculated Through March 31, 2012:	\$4,690	\$16,953	\$21,922	\$27,775	\$19,575	\$20,642	\$4,985	\$116,542



NEW WEST
HEALTH SERVICES

APPENDIX

February 10, 2012

United States Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Drive, Ste270
Cranberry Township, Pennsylvania 16066

RECEIVED FEB 14 2012

RE: New West Health Services
Audit Report No. 1C-NV-00-11-047

New West Health Services (New West) underwent an audit of its Federal Employees Health Benefit Program (FEHBP) with respect to contract years 2006 through 2011 in July 2011 and is in receipt of a Draft Report from The Office of Personnel Management (OPM) dated December 15, 2011. New West has reviewed the report and will address the draft findings and provide relevant supporting information that we believe should be incorporated into the final report by OPM.

2006

New West concurs with the OPM finding that COBRA fees were charged incorrectly. It was an oversight. We also concur that incorrect credibility factors were used and that a 100% factor should have been applied however the same factor was used for [REDACTED]. Therefore we contend that there was little or no impact on the rates. We assert that the selection of [REDACTED] as an SSSG was not correct as the group had a retrospective agreement and was therefore ineligible as an SSSG (a copy of the agreement is attached). New West believes that [REDACTED] should be treated as a SSSG. There were significant benefit design changes to the FEHBP plan for which a figure of [REDACTED] was assigned. Our calculations indicate that the finding would be in the range of \$49,693. Please see the 2006 Enclosure.

2007

New West concurs with OPM findings regarding overcharges for COBRA as a carryover error from the prior year's calculation. We also concur with OPM regarding the allocation of shock claims. However we do not agree with the calculation of the impact. Our calculations indicate that New West overcharged for COBRA administration [REDACTED] and that the Shock Claims error resulted in a discount to [REDACTED] of [REDACTED]. Our calculations indicate that the finding would be in the range of \$92,992. Please see the 2007 Enclosure.

2009

New West concurs with OPM that [REDACTED] was not an SSSG and that [REDACTED] is its replacement. We further concur that [REDACTED] received a lower trend factor than FEHBP and agree that the rates for FEHBP be adjusted to reflect that lower trend. New West did not find that incorrect credibility factors were used, as [REDACTED] made a significant plan design change and offered a dual option which resulted in a revised calculation to determine rates. No discount was applied and the only factor affected was the lower trend which we agree needs to be applied to FEHBP. When we applied the lower trend factor to the OPM rate calculation we came up with a [REDACTED] discount. However we already provided a greater discount to FEHBP from our calculated rates and believe that

applying further discounts is not reasonable. [REDACTED] made significant benefit changes after the rates were calculated and in last minute discussions these were implemented at renewal. They went from a [REDACTED] to a straight [REDACTED] eliminating the point of service rider. This represented a change valued at [REDACTED] which accounts for the perceived discount. Our calculations indicate that the finding would be in the range of \$16,825. Please see the 2009 Enclosure.

2011

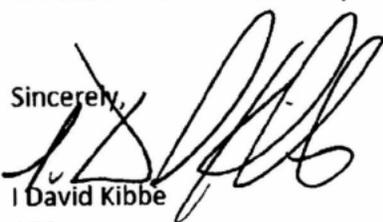
New West disagrees with OPM's selection of [REDACTED] as an SSSG. The selection of [REDACTED] [REDACTED] owns 45% of [REDACTED] and is therefore considered an owner/provider partner and is excluded as an SSSG. [REDACTED] operates under a comprehensive, inter-connected management agreement with [REDACTED] and should be excluded as an SSSG:

- [REDACTED] signed a management agreement with [REDACTED] in May 2002 which continues to remain in effect (attached),
- The Chief Executive Officer of [REDACTED] is an employee of [REDACTED] with dual roles of responsibility to [REDACTED] and the Board of Directors for [REDACTED]
- The Practice Manager of [REDACTED] is an employee of [REDACTED]
- [REDACTED] participates in [REDACTED] Professional Liability Captive,
- [REDACTED] provides [REDACTED] with Group Supply purchasing power as well as Capital Purchase savings, Financial Systems, and Electronic Medical Records (EMR) System, and
- [REDACTED] maintains operative, management, and financial decision making control over [REDACTED]

New West excluded [REDACTED] appropriately and due to multiple and tight linkages between the two organizations respectfully asserts that OPM reconsider its classification after reviewing the attached agreements and consider [REDACTED] as the SSSG selections for 2011. Our calculations indicate that there would be no findings for this year with this appropriate classification of [REDACTED] linked to the [REDACTED] Please see the 2011 Enclosure which is proprietary and confidential and not for release.

New West appreciates the review of its FEHBP business and respectfully requests a review of our response to the Draft Report along with all supporting documentation for consideration in the final report. New West also respectfully requests that in the event of negative findings OPM lessen the penalties by the amount of \$22,562.08 for uncollected brochure costs for the years 2006 through 2011. We believe New West is responsible for paying OPM \$136,947.92, net of these overcharges.

Sincerely,



David Kibbe
CEO

New West Health Services
130 Neill Ave
Helena MT 59601

Encl: 2006, 2007, 2009, & 2011 Enclosure packets