



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

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# Final Audit Report

**Subject:**

## **Audit of the Federal Employees Health Benefits Program Operations at JMH Health Plan**

**Report No. 1C-J8-00-10-025**

**Date: December 15, 2010**

**-- CAUTION --**

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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  
JMH Health Plan  
Contract Number CS 2870 - Plan Code J8  
Miami, Florida**

Report No. 1C-J8-00-10-025

Date: December 15, 2010

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

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



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

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## EXECUTIVE SUMMARY

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**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
JMH Health Plan  
Contract Number CS 2870 - Plan Code J8  
Miami, Florida**

**Report No. 1C-J8-00-10-025**

**Date: December 15, 2010**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at JMH Health Plan (Plan). The audit covered contract years 2004 through 2009 and was conducted at the Plan's office in Miami, Florida. Additional audit work was performed in our field offices in Jacksonville, Florida, and Cranberry Township, Pennsylvania.

This report questions \$1,137,147 for defective pricing in contract years 2004 through 2008. The questioned amount includes \$969,239 for inappropriate health benefit charges and \$167,908 due the FEHBP for lost investment income, calculated through October 31, 2010. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2009.

For contract year 2004, we determined that the FEHBP's rates were overstated by \$109,034 due to defective pricing. More specifically, the Plan did not apply the appropriate trend factor as shown in the rate filing to the FEHBP's rates. In addition, the Plan overstated the retention factor and infertility rider used to develop the FEHBP's rates.

For contract year 2005, we determined that the FEHBP's rates were overstated by \$130,306 due to defective pricing. More specifically, the Plan did not apply a discount given to a similarly

sized subscriber group (SSSG), the State of Florida, to the FEHBP's rates, and the Plan overstated the retention factor and infertility rider used to develop the FEHBP's rates.

For contract year 2006, we determined that the FEHBP's rates were overstated by \$148,465 due to defective pricing. More specifically, the Plan did not apply the discount given to the SSSG, James E. Scott Community Association, Inc. (██████████) to the FEHBP's rates, and the Plan overstated the retention factor and infertility rider used to develop the FEHBP's rates. The Plan also charged the FEHBP an unallowable extension of coverage loading.

For contract year 2007, we determined that the FEHBP's rates were overstated by \$181,261 due to defective pricing. More specifically, the Plan overstated the unpaid claims, manual pharmacy rate, retention factor, and infertility rider used to develop the FEHBP rates. The Plan also charged the FEHBP an unallowable extension of coverage loading.

For contract year 2008, we determined that the FEHBP's rates were overstated by \$394,192 for the high option and \$5,981 for the standard option due to defective pricing. More specifically, the Plan did not apply the discount given to the SSSG, ██████████ to the FEHBP's rates, and the Plan overstated the unpaid claims, manual trend factors, retention factor, and infertility rider used to develop the FEHBP's rates. The Plan also charged the FEHBP an unallowable extension of coverage loading.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$167,908 for lost investment income, calculated through October 31, 2010, on the defective pricing findings. In addition, we recommend that the contracting officer recover lost investment income starting November 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

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# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at JMH Health Plan (Plan) in Miami, Florida. The audit covered contract years 2004 through 2009. The audit was conducted pursuant to the provisions of Contract CS 2870; 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.

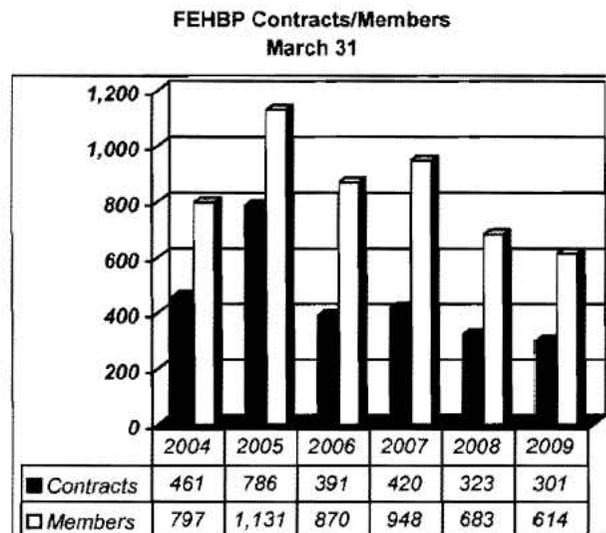
## **Background**

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 Retirement and Benefits 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 participated in the FEHBP from 2003 through 2009 and provided health benefits to FEHBP members in Miami-Dade and Broward Counties. This was the first audit conducted by OPM of this 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 for review and comment. The Plan's comments were considered in the preparation of this report and are included, as appropriate, as the Appendix.

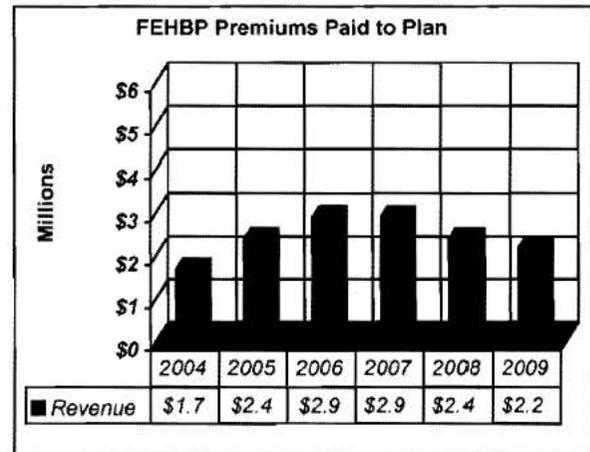
## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### 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 2004 through 2009. For these contract years, the FEHBP paid approximately \$14.5 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, 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 Miami, Florida, during March 2010. Additional audit work was completed at our field 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 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's policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

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

#### **Premium Rates**

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

**\$969,239**

The Certificates of Accurate Pricing the Plan signed for contract years 2004 through 2008 were defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$969,239 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract year 2009.

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. If it is found that the FEHBP was charged higher than a market price (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.

In 2004, the Plan used a community rating by class (CRC) methodology to develop the FEHBP rates and then switched to an adjusted community rating (ACR) methodology with a credibility factor used to blend the experience and manual rate from 2005 through 2009. The

\_\_\_\_\_ was rated using a CRC methodology in all years. The ACR methodology is based on group specific claims experience blended with a manual rate, which is adjusted by trend factors, a benefit change factor, high dollar claims, and retention in order to determine the required per member per month (PMPM) revenue needed for the renewal period. Once the required PMPM is calculated, a conversion factor and premium ratio, or a current PMPM and percentage increase are applied to determine the group's renewal rates by billing tier.

#### **2004**

In 2004, the Plan selected \_\_\_\_\_ and the \_\_\_\_\_ as SSSGs. We agree with the selection of the \_\_\_\_\_, but disagree with the Plan's selection of \_\_\_\_\_ since the group includes Plan employees, and selected \_\_\_\_\_ as the other SSSG. Our analysis of the rates charged to the \_\_\_\_\_ and \_\_\_\_\_ shows that neither group received a discount.

We reviewed the FEHBP's rates and found that the Plan used higher manual trend factors in the FEHBP rate development than the factors supported by the rate filing. Accordingly, we reduced the FEHBP's medical and prescription drug (Rx) manual trend factors from \_\_\_\_\_ and \_\_\_\_\_9 to \_\_\_\_\_ and \_\_\_\_\_2, respectively. In addition, we reduced the FEHBP's retention from \_\_\_\_\_

██████████ to ██████████, as supported by the Plan's rate filing, and we reduced the infertility rider from ██████████ PMPM to ██████████ PMPM after the Plan identified the overcharge and provided actual support. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$109,034 in 2004 (see Exhibit B).

**Plan's Comments (See Appendix):**

The Plan states that ██████████ should not be considered an SSSG because the group meets the definition of a "provider partner." ██████████ is a subsidiary of the ██████████. Further, ██████████. The Plan contends that since the ██████████ and ██████████ is a subsidiary of the ██████████ the Plan has an interest in ██████████ viability.

In addition, the Plan asserts that ██████████ is not a reasonable or adequate retention rate, nor is it a reflection of the retention rate that JMH Health Plan or other insurers charged to other groups. The Plan states that it was required to file a rate manual in order to offer a commercial rate to ██████████. However, the manual rating was used sparingly to quote coverage for mid-size groups (small groups above the small employer threshold of 50 employees). As manually rated groups were always immaterial to the Plan's financial results, this line of business received little management attention. The Plan contends that the retention factor used in the FEHBP's rates should not be based on the rate manual, rather it should not exceed the percentage used in the ██████████ rate development (i.e., ██████████ percent in 2004 through 2006 and ██████████ percent in 2007 and 2008).

While the Plan did not specifically mention the use of higher manual trend rates, its calculation of the liability due the FEHBP shows that it did not accept the audit adjusted manual trend factors. However, the Plan does agree that the infertility benefit rate should be changed from ██████████ PMPM to \$██████████ PMPM. The Plan re-calculated the FEHBP's rates for 2004 and determined that the FEHBP is due \$17,349.

**OIG's Response to the Plan's Comments:**

According to OPM's Community Rating Guidelines, the definition of a provider partner is, "Employer Groups in which the carrier has a financial interest or there is a risk sharing arrangement. The mere fact that a carrier conducts business with an employee group does not render it a provider partner." The Plan is ██████████. ██████████ does provide funding, both direct and federal pass-through, to ██████████ however, simply providing funds to an organization does not constitute a financial interest or risk sharing arrangement. ██████████ does not meet the definition of a "provider partner" because the relationship between ██████████ and the Plan is not a financial or risk sharing arrangement. The only relationship between the Plan and ██████████ is that ██████████ contracted with the Plan to provide health insurance to its employees.

The rate filing clearly states that the retention rate is [REDACTED] percent, plus any commission, and that is also the retention rate charged to [REDACTED]. Regardless of the retention rate the Plan, or other insurers, charged to other groups, the FEHBP rates must be equivalent to the lower of the two SSSG rates, including any discounts or market advantage given to an SSSG. Therefore, we continue to use a [REDACTED] percent retention factor in calculating the audited rates.

We acknowledge the Plan's agreement with the adjustment to the infertility rider PMPM. However, we do not agree with the use of manual trend factors and a retention factor that is higher than the factors supported by the rate filing or charged to [REDACTED]. Therefore, we continue to question \$109,034 in overcharges to the FEHBP in 2004.

## **2005**

In 2005, the Plan selected [REDACTED] and the [REDACTED] as SSSGs. We agree with the Plan's selection of the [REDACTED] but we disagree with the Plan's selection of [REDACTED] since the group includes Plan employees, and we selected [REDACTED] as the other SSSG. Our analysis of the rates charged to the [REDACTED] shows that the group received a [REDACTED] percent discount, which was not applied to the FEHBP. The discount is based on a reduced billed rate and understated Rx claims used in the experience portion of the rate development. [REDACTED] did not receive a discount.

We reviewed the FEHBP's rates and found the group was given a higher retention factor and infertility rider than what could be supported. We also found an unallowable extension of coverage loading. Per OPM's 2005 Reconciliation Instructions, "claims should reflect extension of coverage, which means that you should not take the extension of coverage loading." Because the FEHBP was rated using an ACR methodology in 2005, we removed the loading since the claims experience should already reflect extension of coverage. In addition, we reduced the FEHBP's retention factor from [REDACTED] percent to [REDACTED] percent as supported by the Plan's rate filing, and we reduced the infertility rider from [REDACTED] PMPM to [REDACTED] PMPM after the Plan identified the overcharge and provided actual support. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$130,306 in 2005 (see Exhibit B).

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

As discussed above, the Plan does not agree that [REDACTED] should be an SSSG. In addition, the Plan does not agree that a [REDACTED] percent retention factor should be used in the FEHBP's rate development. The Plan contends the retention factor should be [REDACTED] percent. The Plan agrees with the recommended adjustments to the infertility rider. However, despite these disagreements, the Plan does not challenge the audited rates, and the Plan's calculations show agreement with the \$130,306 overcharge to the FEHBP.

### **OIG's Response to the Plan's Comments:**

We acknowledge the Plan's agreement with the audited rates and questioned costs for 2005.

### **2006**

In 2006, the Plan selected [REDACTED] as the only SSSG. We disagree with the Plan's selection of [REDACTED] since the group includes Plan employees, and selected [REDACTED] as the only SSSG, since there were no other employer groups that contracted with the Plan from 2006 forward. Our analysis of the rates charged to [REDACTED] shows that the group received a [REDACTED] percent discount, which was not applied to the FEHBP. The discount was due to a 5 month rate extension from April 1, 2007, to August 31, 2007, and an understated vision rider. The vision rider was missing the 2005 trend of [REDACTED] percent, which increased it from [REDACTED] PMPM to \$ [REDACTED] PMPM.

We reviewed the FEHBP's rates and found the group was given a higher retention factor and infertility rider than what could be supported. We also found an unallowable extension of coverage loading. Per OPM's 2006 Reconciliation Instructions, "claims should reflect extension of coverage, which means that you should not take the extension of coverage loading." Because the FEHBP was rated using an ACR methodology in 2006, we removed the loading since the claims experience should already reflect extension of coverage. In addition, we reduced the FEHBP's retention from [REDACTED] percent to [REDACTED] percent as supported by the Plan's rate filing, and we reduced the infertility rider from [REDACTED] PMPM to [REDACTED] PMPM after the Plan identified the overcharge and provided actual support. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$148,465 in 2006 (see Exhibit B).

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

As previously discussed, the Plan does not agree that [REDACTED] should be an SSSG. In addition, the Plan does not agree that a [REDACTED] percent retention factor should be used to develop the FEHBP's rates. Rather, the Plan contends that a [REDACTED] percent retention factor is appropriate. However, the Plan agrees that the infertility benefit rate should be changed from \$ [REDACTED] PMPM to \$ [REDACTED] PMPM. The Plan also agrees that the extension of coverage should be removed from the FEHBP's rates. As a result, the Plan's calculations show \$14,150 due the FEHBP for 2006.

### **OIG's Response to the Plan's Comments:**

As discussed above, we do not agree with the Plan's argument that [REDACTED] is a provider partner and therefore ineligible to be an SSSG. In addition, we disagree that the FEHBP's retention factor should be higher than [REDACTED] percent.

We acknowledge the Plan's agreement with the adjustment to the infertility rider PMPM and the removal of the extension of coverage loading. However, we continue to apply a [REDACTED]

percent SSSG discount to the FEHBP's audited rates and use a [REDACTED] percent retention factor in our rate development. As a result, our analysis continues to show that the FEHBP is due \$148,465 for overcharges in 2006.

## **2007**

In 2007, the Plan selected [REDACTED] as the only SSSG. We disagree with the Plan's selection of [REDACTED] since the group includes Plan employees. Due to the rate extension, [REDACTED] was not an eligible SSSG in this year, since the renewal date changed from April 1, 2007, to September 1, 2007. Therefore, there were no eligible SSSGs in 2007.

During our review of the FEHBP's rates for 2007, we identified five findings. In addition to the overstated retention factor, infertility rider, and unallowable extension of coverage loading identified in the earlier years, we found the rates were developed using an overstated unpaid claim liability and an inappropriate Rx rider.

The Plan applied \$ [REDACTED] to the FEHBP in unpaid claim liability, but the support showed only \$ [REDACTED]. The difference was due to a manual override of the unpaid claim liability using a [REDACTED] percent loading. The Plan commented in the rate development that the [REDACTED] percent loading was [REDACTED] percent higher than the original unpaid claim liability. We adjusted the unpaid claim liability back to [REDACTED] as supported.

The Plan priced the FEHBP using a [REDACTED] PMPM Rx rider for a \$7/\$20/\$35 Rx benefit level. The FEHBP had \$5/50 percent Rx benefit level in 2007 and should have been priced using a [REDACTED] PMPM Rx rider. We adjusted the prescription drug rider to account for the actual benefits received.

In addition to the two adjustments above, we reduced the FEHBP's retention factor from [REDACTED] percent to [REDACTED] percent, as supported by the Plan's rate filing; we reduced the infertility rider from [REDACTED] PMPM to \$ [REDACTED] PMPM, after the Plan identified the overcharge; and we removed the extension of coverage loading. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$181,261 in 2007 (see Exhibit B).

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

As previously discussed, the Plan does not agree that a [REDACTED] percent retention factor is appropriate and believes that a [REDACTED] percent retention factor should be used to develop the FEHBP rates. However, the Plan agrees with the recommended adjustments to the infertility rider, the extension of coverage loading, the claim liability adjustment, and the Rx benefit value adjustment. Based on its calculations, the Plan believes the FEHBP is due \$84,995 for 2007.

## **OIG's Response to the Plan's Comments:**

As discussed in the other years, we do not agree that the FEHBP's rates should include a higher retention factor. We acknowledge the Plan's agreement with adjustment to the infertility rider PMPM, the removal of the extension of coverage loading, the adjustment to the unpaid claim liability, and the adjustment to the Rx benefit value. However, we continue to use a [REDACTED] percent retention factor to develop the FEHBP rates in 2007. As a result, our analysis continues to show that the FEHBP was overcharged \$181,261 in 2007.

### **2008**

In 2008, the Plan selected [REDACTED] as the only SSSG. We disagree with the Plan's selection [REDACTED] since the group includes Plan employees, and selected [REDACTED] as the only SSSG. Our analysis of the rates charged to [REDACTED] shows the group received an [REDACTED] percent discount, which was not applied to the FEHBP. The discount was due to understated medical, vision, and Rx riders. The Plan charged [REDACTED] a [REDACTED] PMPM base medical rate, but the support showed it should have been \$ [REDACTED] PMPM. In addition, the Plan charged [REDACTED] a [REDACTED] PMPM vision rider that only included one year of [REDACTED] percent trend. This vision rider should have been \$ [REDACTED] PMPM after applying a [REDACTED] percent and [REDACTED] percent trend for 2005 and 2007, respectively. Finally, the Plan charged [REDACTED] a \$ [REDACTED] PMPM Rx rider, but the support showed it should have been \$ [REDACTED] PMPM.

During our review of the FEHBP's rates, we identified five findings. In addition to the overstated retention factor, infertility rider, and unallowable extension of coverage loading identified in the earlier years, we found the rates were developed using an overstated unpaid claim liability and overstated manual trend factors.

The Plan applied \$ [REDACTED] to the FEHBP in unpaid claim liability, but the support showed it should have been [REDACTED]. The difference was due to the Plan applying 4 additional months of unpaid claim liability from the prior years' (2005) experience period in addition to the 12 months of the current experience period (2006). We removed the additional four months of unpaid claim liability.

The Plan applied manual trend factors of [REDACTED] and [REDACTED] to the FEHBP's medical and Rx riders. Because the base rates are from the April 2005 rate filing, the FEHBP's trend factors should adjust the base rate forward by 11 quarters from the second quarter of 2005 to the first quarter of 2008. With a medical trend of [REDACTED] percent and an Rx trend of [REDACTED] percent, we adjusted the trend factors down to [REDACTED] for medical and [REDACTED] for prescription drug.

In addition to the two adjustments above, we reduced the FEHBP's retention factor from [REDACTED] percent to [REDACTED] percent as supported by the Plan's rate filing, we reduced the infertility rider from [REDACTED] PMPM to [REDACTED] PMPM after the Plan identified the overcharge, and we removed the extension of coverage loading. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$394,192 in 2008 for the High

Option and \$5,981 in 2008 for the Standard Option (see Exhibit B). In total, the FEHBP was overcharged \$400,173 in 2008

**Plan's Comments (See Appendix):**

As previously discussed in this report, the Plan contends that [REDACTED] is not an SSSG because it is a provider partner. Therefore, the Plan removed the [REDACTED] percent SSSG discount from its calculations. Also, the Plan contends that [REDACTED] percent is not a reasonable retention factor, and therefore, used [REDACTED] percent in its calculations. The Plan does agree with the adjustments to the FEHBP's rate development to reduce the infertility rider PMPM, remove the extension of coverage loading, reduce the unpaid claim liability, and reduce the manual trend factors. Based on the Plan's calculations, it contends that the FEHBP is due \$24,210 for 2008 high option rates. The Plan did not re-calculate the standard option rates due to materiality.

**OIG's Response to the Plan's Comments:**

As discussed in greater detail above, [REDACTED] is not a provider partner, therefore, the group is an SSSG and the [REDACTED] percent discount granted to the group should be applied to the FEHBP rates. In addition, as previously discussed, we disagree that a [REDACTED] percent retention factor is not reasonable and continue to use [REDACTED] percent in the development of the FEHBP's audited rates.

We acknowledge the Plan's agreement with the adjustments to the infertility rider, extension of coverage loading, unpaid claim liability, and the manual trend factors. Based on these adjustments, as well as the adjustment to the retention factor and application of the [REDACTED] percent SSSG discount, we continue to question \$394,192 and \$5,981 in overcharges to the high and standard option rates, respectively. In total, the FEHBP was overcharged \$400,173 in 2008.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$969,239 to the FEHBP for defective pricing in contract years 2004 through 2008.

**2. Lost Investment Income**

**\$167,908**

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 findings in contract years 2004 through 2008. We determined that the FEHBP is due \$167,908 for lost investment income, calculated through October 31, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning November 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

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's Comments (See Appendix):**

The Plan did not address this issue.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$167,908 to the FEHBP for lost investment income for the period January 1, 2004 through October 31, 2010. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning November 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

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

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

██████████, Auditor-in-Charge

██████████ Staff Auditor

██████████, Staff Auditor

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██████████, Chief

██████████, Senior Team Leader

**JMH Health Plan  
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2004	\$109,034
Contract Year 2005	\$130,306
Contract Year 2006	\$148,465
Contract Year 2007	\$181,261
Contract Year 2008	<u>\$400,173</u>

Total Defective Pricing Questioned Costs: \$969,239

Lost Investment Income: \$167,908

***Total Questioned Costs:*** ***\$1,137,147***

**JMH Health Plan  
Defective Pricing Questioned Costs**

**2004**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Overcharge	████████	████████	
To Annualize Overcharge:			
3/31/04 enrollment	█	█	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	████████	████████	
Total 2004 Defective Pricing Questioned Costs			<b><u>\$109,034</u></b>

**2005**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Overcharge	████████	████████	
To Annualize Overcharge:			
3/31/05 enrollment	█	█	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	████████	\$████████	
Total 2005 Defective Pricing Questioned Costs			<b><u>\$130,306</u></b>

**JMH Health Plan  
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:			
3/31/06 enrollment	██	██	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	██████	██████	
Total 2006 Defective Pricing Questioned Costs			██████

**2007**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	██████	██████	
FEHBP Line 5 - Audited Rate	<u>\$157.00</u>	██████	
Overcharge	██████	██████	
To Annualize Overcharge:			
3/31/07 enrollment	██	██	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	██████	██████	
Total 2007 Defective Pricing Questioned Costs			<u>\$181,261</u>

**JMH Health Plan  
Defective Pricing Questioned Costs**

**2008 High Option**

	Self	Family	
FEHBP Line 5 - Reconciled Rate	██████	██████	
FEHBP Line 5 - Audited Rate	██████	██████	
Overcharge	██████	██████	
To Annualize Overcharge:			
3/31/08 enrollment	█	█	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	██████	██████	
Total 2008 High Option Defective Pricing Questioned Costs			<b>\$394,192</b>

**2008 Standard Option**

	Self	Family	
FEHBP Line 5 - Reconciled Rate	██████	██████	
FEHBP Line 5 - Audited Rate	██████	██████	
Overcharge	██████	\$██████	
To Annualize Overcharge:			
3/31/08 enrollment	█	█	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	█	██████	
Total 2008 Standard Option Defective Pricing Questioned Costs			<b><u>\$5,981</u></b>
Total 2008 Defective Pricing Questioned Costs			<b><u>\$400,173</u></b>

**Total Defective Pricing Questioned Costs** **\$969,239**

**JMH Health Plan  
Lost Investment Income**

<b>Year</b>	2004	2005	2006	2007	2008	2009	2010	Total
<b>Audit Findings:</b>								
1. Defective Pricing	\$109,034	\$130,306	\$148,465	\$181,261	\$400,173	\$0	\$0	\$969,239
Totals (per year)	\$109,034	\$130,306	\$148,465	\$181,261	\$400,173	\$0	\$0	\$969,239
Cumulative Totals:	\$109,034	\$239,340	\$387,805	\$569,066	\$969,239	\$969,239	\$969,239	\$969,239
Avg. Interest Rate (per year)	4.250%	4.375%	5.4375%	5.500%	4.9375%	5.250%	3.1875%	
Interest on Prior Years Findings:	\$0	\$4,770	\$13,014	\$21,329	\$28,098	\$50,885	\$25,745	\$143,841
Current Years Interest:	\$2,317	\$2,850	\$4,036	\$4,985	\$9,879	\$0	\$0	\$24,067
Total Cumulative Interest Calculated Through October 31, 2010:	\$2,317	\$7,620	\$17,050	\$26,314	\$37,977	\$50,885	\$25,745	\$167,908



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**Appendix**

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Suite 110  
Miami, Florida 33130  
Phone: 305-575-3700  
Fax: 305-545-5212  
Email: [inquiries@jmhhp.com](mailto:inquiries@jmhhp.com)

September 27, 2010

[REDACTED]  
Chief, Community-Rated Audit Group  
U.S. Office of Personnel Management  
Office of the Inspector General  
1900 E Street, NW  
Room 6400  
Washington, D.C. 20415-1100

*Sent via hard copy and CD in Microsoft Word format*

Dear [REDACTED]:

JMHI Health Plan (JMHI) has received the draft audit results from the U.S. Office of Personnel Management (OPM) detailing the Audit Findings and Recommendations for the Federal Employees Health Benefit Program (FEHBP). We appreciate the opportunity to provide comments regarding the draft report.

In review of the Audit Findings and Recommendations, JMHI discovered three general items that warrant comment which are common to multiple plan years being reviewed. These comments are discussed in the "General Items" section of this letter. Other comments are specific to a plan year and are included in the "Plan Year Items" section.

In addition to our comments, we have included response calculations in this letter which are reflective of our comments.

**GENERAL ITEMS**

**Deleted by OIG – Not relevant to the Final Report**

**2. Retention**

In each year, the JMH retention was reduced by OPM to 10% in the draft Audit Findings and Recommendations.

The OPM rationale for lowering the retention each year is that the 2002 rate filing and subsequent rate manual updates reflected a [redacted] base retention charge plus a variable commission charge. As commission charges are not applicable to the Federal Group, OPM believes that no more than a [redacted] retention rate is appropriate.

A brief discussion of the rate manual is warranted. JMH is a public subsidiary of the Public Health Trust of Miami-Dade county. The company's primarily line of business is a Medicaid HMO which provides service to low income residents of Miami-Dade county. JMH entered the commercial market with the intent of providing coverage to [redacted], including employees of the health plan and [redacted]. We were required to file a rate manual to participate in this market although the Miami-Dade county rates were based on the group's experience. The manual was used sparingly to quote coverage for mid-size groups (small groups above the small employer threshold of 50 employees). As manually rate groups were always immaterial to JMH's financial results, this line of business received little management attention.

JMH asserts that [redacted]% is not a reasonable or adequate retention rate, nor is it a reflection of the retention rate that JMH charged to other groups. The table below displays the retention rates charged to each group for each year. The retention level applied to the groups in the table received significant attention from the Chief Financial Officer. [redacted] is not included in the table as the enrollment was small and the group was renewed without direct approval by the Chief Financial Officer.

	FEHBP	[redacted]	[redacted]
2003	[redacted]	[redacted]	[redacted]
2004	[redacted]	[redacted]	[redacted]
2005	[redacted]	[redacted]	[redacted]
2006	[redacted]	[redacted]	[redacted]
2007	[redacted]	[redacted]	[redacted]
2008	[redacted]	[redacted]	[redacted]
2009	[redacted]	[redacted]	[redacted]

In preparation for our response, we also reviewed the retention level of other large group carriers in Florida, further supporting the market unreasonableness of a 10% retention level.

Company	Retention
Aetna	█
AvMed	█
Cigna	█
Foundation Health	█
Humana	█
Vista Health Plan	█

In our response calculations, we have applied the retention rate in the reconciliation which does not exceed the retention rates of our commercial groups reviewed by the Chief Financial Officer.

### **3. SSSG Selection**

█ is a “provider partner”, defined by OPM as an “Employer Group in which the carrier has an interest or there is a risk sharing arrangement.” Provider partners should be excluded from SSSG consideration.

JMH Health Plan is a subsidiary of the Public Health Trust of Miami-Dade county. █ was a publicly funded social service agency that worked with county agencies and served Miami’s inner city. The county partnered with █ and had a strong interest in the viability of the agency and uncollected health premiums were allowed to sustain the agency.

The federal government has recognized the link between Miami-Dade county and █ as the U.S. Department of Housing and Urban Development pursued a claim against Miami-Dade County due to unsatisfactory use of federal funds that the county steered to █ projects. For further information, <http://www.miamiherald.com/2010/07/19/1737900/agencys-failures-leave-trail-of.html#ixzz10ZpFLNoc>

In our response calculations, we have removed the discounts to the Federal Group that were based upon discounts applied to █ in the draft audit results.

## PLAN YEAR ITEMS

### 2004 Contract Year

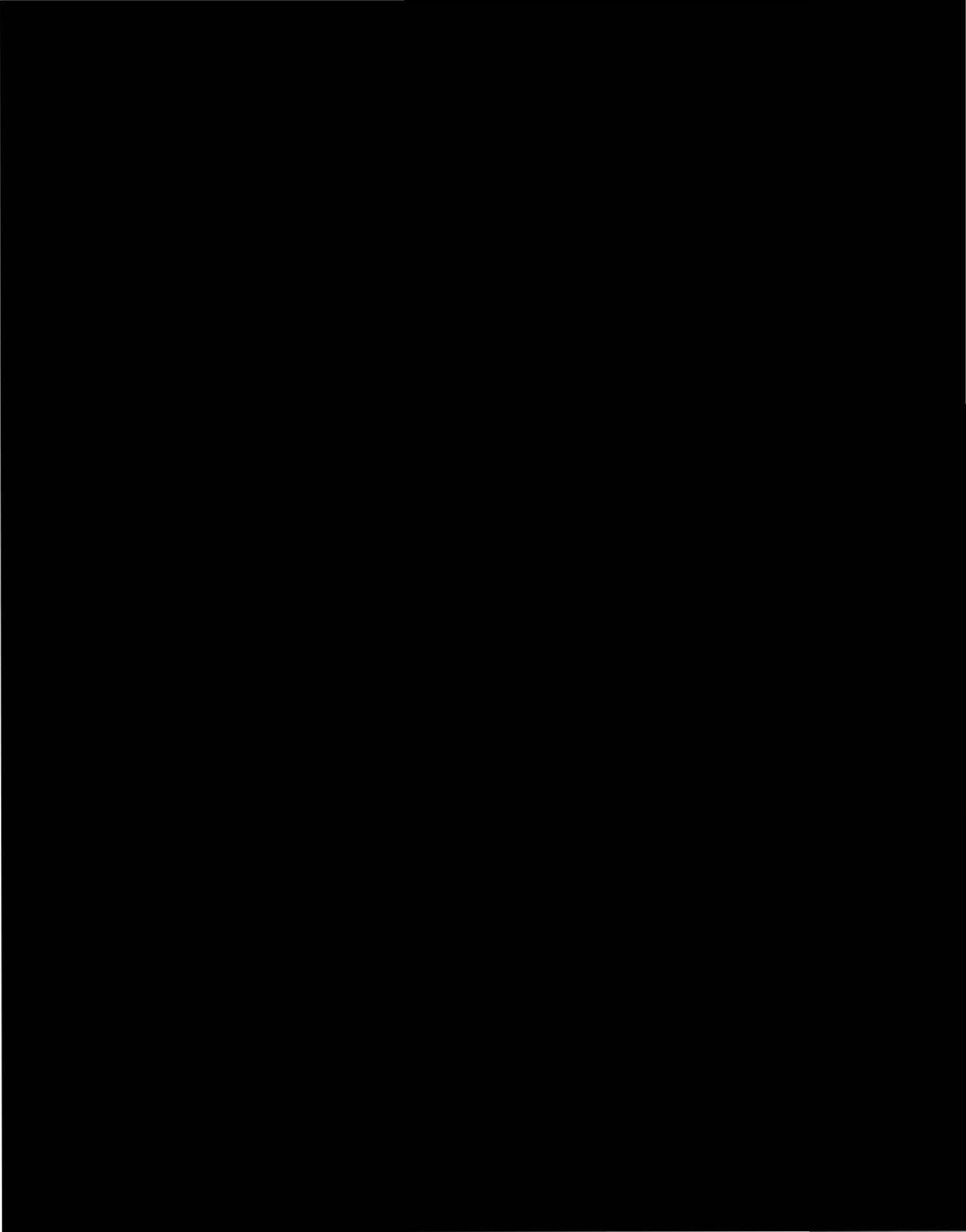
The Audit Findings and Recommendations indicate that the [REDACTED] did not receive a discount. Alternatively, the Audit Findings and Recommendations indicate that the [REDACTED] received a lower manual trend factor and that “Any trend factor used for the Federal group must be the same as the trend factor the carrier used for other groups.” The referenced instructions refer to ACR guidance in the OPM instructions; ACR guidance is not applicable to the Federal Group in 2004.

ACR trend factors are applied to prior claims experience to project future experience. Manual trend factors are not factors that are multiplied by claims experience to project future experience. Manual trend factors are intended to update the base rate for timing differences, and can be equally expressed as a prior base rate and a trend factor or an updated base rate.

In the case of the [REDACTED], if a lower base rate was applied, it should be recognized as a discount from the manual rate. The table below shows the manual rate discount in the Initial Rate Calculation relative to the Revised Rate Calculation which does not include a discount. The discount is minimal as the group rate is based primarily on experience. The actual rates charged are higher than the Revised Rate Calculation; therefore, no effective discount was applied.

State of Florida	Individual	Family
Initial Rate Calculation	[REDACTED]	[REDACTED]
Revised Rate Calculation	[REDACTED]	[REDACTED]
Actual Rates Charged	[REDACTED]	[REDACTED]

As discussed in the general items section, a [REDACTED] retention level is appropriate for the Federal Group. JMH agrees with OPM’s comment that the rate for the infertility rider should be reduced. The chart below illustrates the initial rate calculations, the draft audit results, and the calculations reflective of our response comments.



The calculation below reflects the chart above and the corrected enrollment.

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	████████6	████████
FEHBP Line 5 - Audited Rate	████████	████████
Overcharge	██████	██████
To Annualize Overcharge:		
3/31/04 enrollment	██	██
Pay Periods	██	██
Subtotal	██████	██████
Total 2004 Defective Pricing Costs		<u>\$17,349</u>

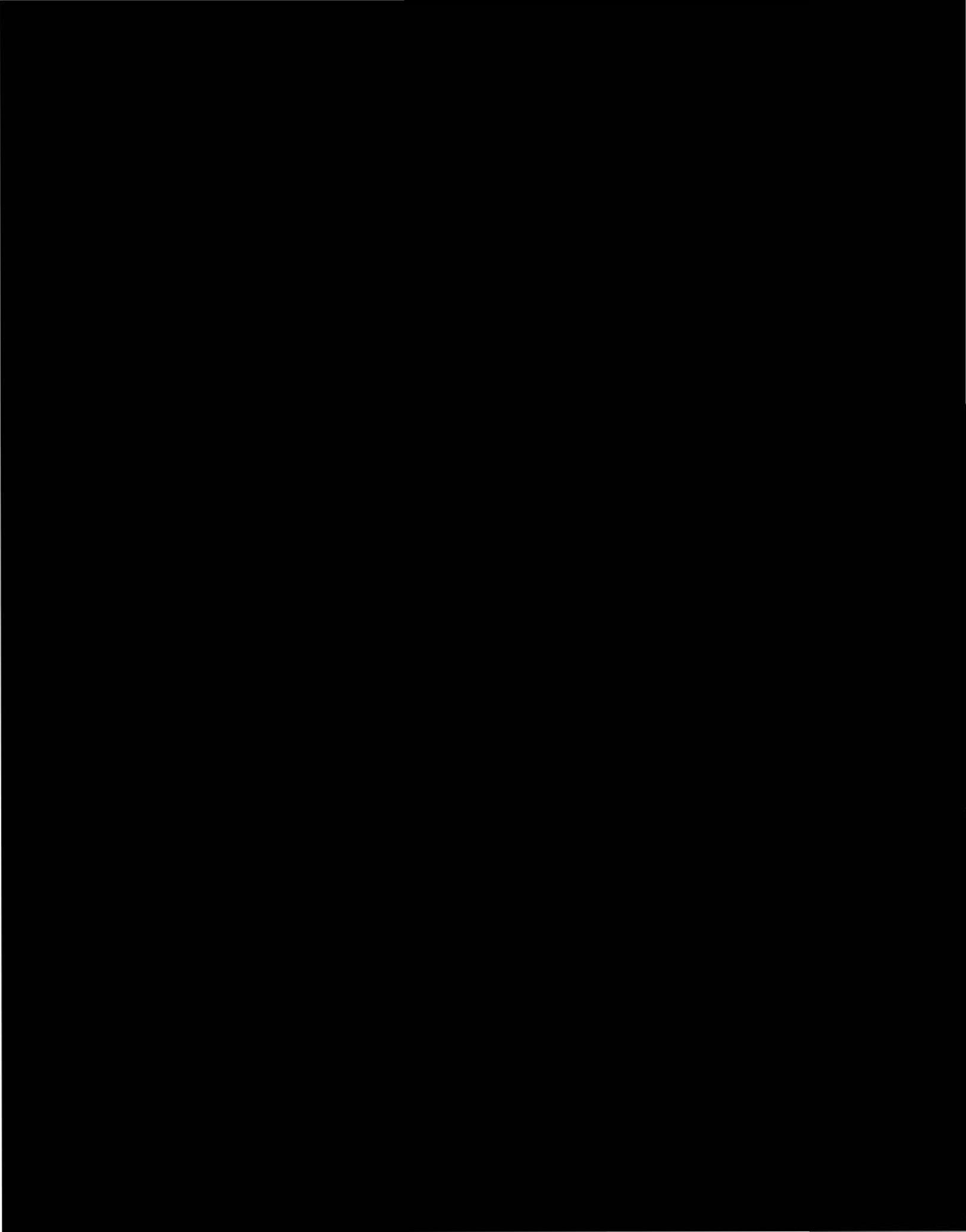
2005 Contract Year

JMH does not challenge the audited rate in the draft pricing results. The calculation below reflects the corrected enrollment.

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	████████	████████
FEHBP Line 5 - Audited Rate	████████	████████
Overcharge	██████	██████
To Annualize Overcharge:		
3/31/05 enrollment	██	██
Pay Periods	██	██
Subtotal	██████	██████
Total 2005 Defective Pricing Costs		<u>\$130,306</u>

2006 Contract Year

We have removed the discounts to the Federal Group that were based upon discounts applied to ██████ in the draft audit results. As discussed in the general items section, a ██████ retention level is appropriate for the Federal Group. JMh agrees with OPM's comments that the rate for the infertility rider should be reduced and the extension of coverage loading should be removed. The chart below includes the calculations reflective of our response comments.

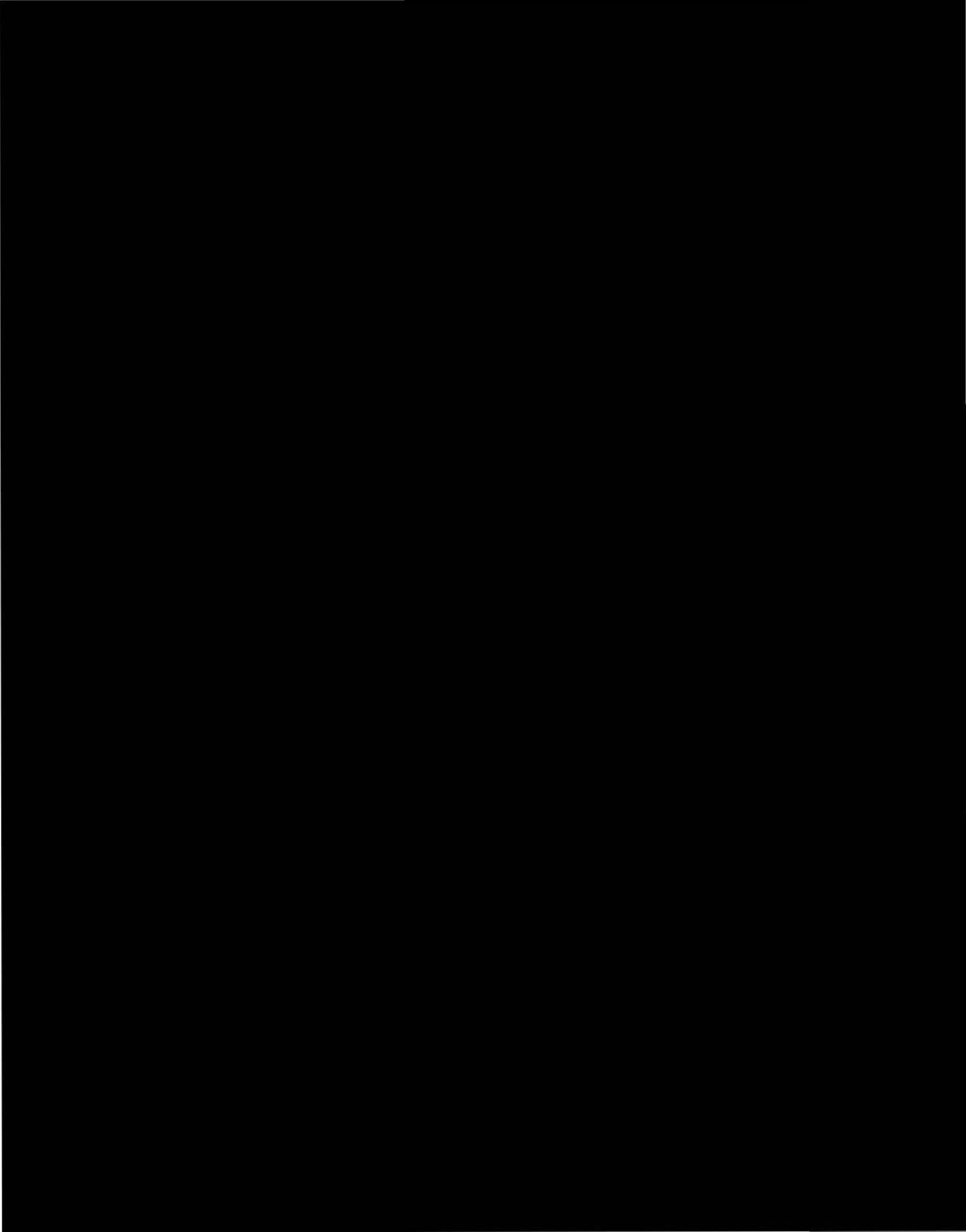


The calculation below reflects the chart above and the corrected enrollment.

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	██████	██████
FEHBP Line 5 - Audited Rate	██████	██████
Overcharge	██████	██████
To Annualize Overcharge:		
3/31/06 enrollment	██████	██████
Pay Periods	26	26
Subtotal	██████	██████
Total 2006 Defective Pricing Costs		<u>\$14,150</u>

2007 Contract Year

As discussed in the general items section, a ██████ retention level is appropriate for the Federal Group. JMH agrees with OPM's comments that the rate for the infertility rider should be reduced and the extension of coverage loading should be removed. We also agree with the recommended claim liability adjustment and Rx benefit value adjustment. The chart below includes the calculations reflective of our response comments.

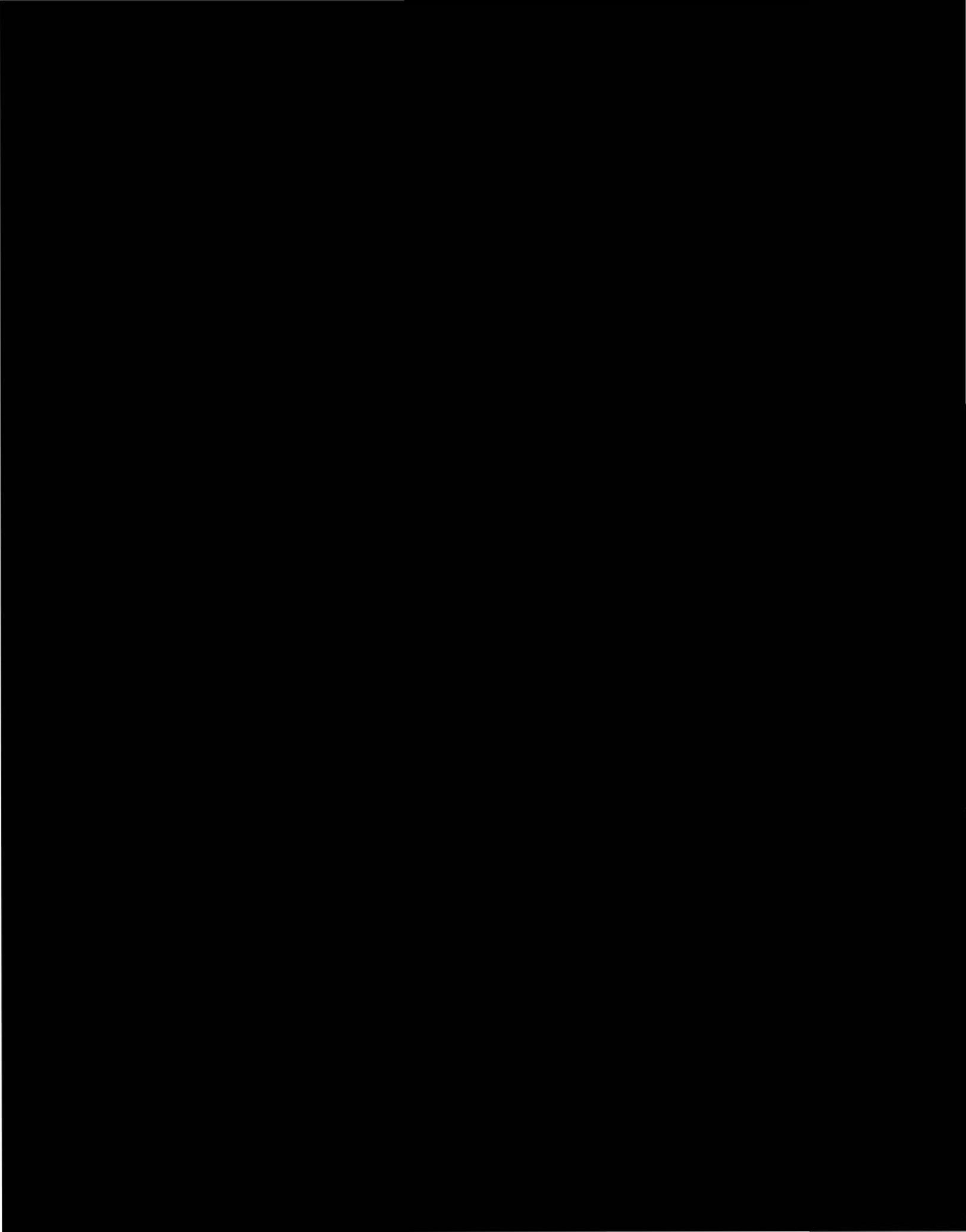


The calculation below reflects the chart above and the corrected enrollment.

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	██████	██████
FEHBP Line 5 - Audited Rate	██████	██████
Overcharge	██████	██████
To Annualize Overcharge:		
3/31/07 enrollment	██████	██████
Pay Periods	26	26
Subtotal	██████	██████
Total 2007 Defective Pricing Costs		<u>\$84,995</u>

2008 Contract Year

We have removed the discounts to the Federal Group that were based upon discounts applied to ██████ in the draft audit results. As discussed in the general items section, a ██████% retention level is appropriate for the Federal Group. JMH agrees with OPM's comments that the rate for the infertility rider should be reduced and the extension of coverage loading should be removed. We also agree with the recommended claim liability adjustment and adjustment of the manual trend factors. The chart below includes the calculations reflective of our response comments. (The chart reflects the 2008 High Option; due to materiality, we did not review the 2008 Standard Option but would have similar comments.)



The calculation below reflects the chart above and the corrected enrollment.

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	██████	██████
FEHBP Line 5 - Audited Rate	██████	██████
Overcharge	██████	██████
To Annualize Overcharge:		
3/31/08 enrollment	██████	██████
Pay Periods	26	26
Subtotal	██████	██████
██████ 2008 Defective Pricing Costs		<u>\$24,210</u>

**CONCLUSION**

Thank you for the opportunity to provide comments regarding the draft report. We are available to discuss any clarifications you may require regarding our comments.

Sincerely,

██████████  
Director of Government Programs

cc: ██████████ Wakely Consulting Group, Inc.