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

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# Final Audit Report

**AUDIT OF THE FEDERAL EMPLOYEES HEALTH  
BENEFITS PROGRAM OPERATIONS AT  
PHYSICIANS HEALTH PLAN OF NORTHERN INDIANA**

**Report Number 1C-DQ-00-14-051  
June 3, 2015**

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# EXECUTIVE SUMMARY

## *Audit of the Federal Employees Health Benefits Program Operations at Physicians Health Plan of Northern Indiana*

Report No. 1C-DQ-00-14-051

June 3, 2015

### **Why Did We Conduct the Audit?**

The primary objectives of the audit were to determine if Physicians Health Plan of Northern Indiana (Plan) developed the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current data, and that the rates are 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 2648, the Office of the Inspector General completed a performance audit of the FEHBP's rates offered for contract years 2008 through 2012. Our audit fieldwork was conducted from July 21, 2014 through August 1, 2014 at the Plan's office in Fort Wayne, Indiana.



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

### **What Did We Find?**

This report questions \$89,759 for inappropriate health benefit charges to the FEHBP in contract year 2011. The questioned amount includes \$83,505 for defective pricing and \$6,254 due the FEHBP for lost investment income, calculated through April 30, 2015.

In contract years 2008 through 2012, we found that the Plan did not consistently account for benefit changes in the experience period for the SSSGs and the FEHBP. However, after developing our audited FEHBP rates using the SSSGs' benefit change methodology, we determined there was no material cost impact to the FEHBP in all contract years, with the exception of contract year 2011.

# ABBREVIATIONS

<b>ACR</b>	<b>Adjusted Community Rating</b>
<b>CRC</b>	<b>Community Rating by Class</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>Physicians Health Plan of Northern Indiana</b>
<b>SSSG</b>	<b>Similarly Sized Subscriber Group</b>
<b>U.S.C.</b>	<b>United States Code</b>

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# I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at Physicians Health Plan of Northern Indiana (Plan). The audit covered contract years 2008 through 2012, and was conducted at the Plan's office in Fort Wayne, Indiana.

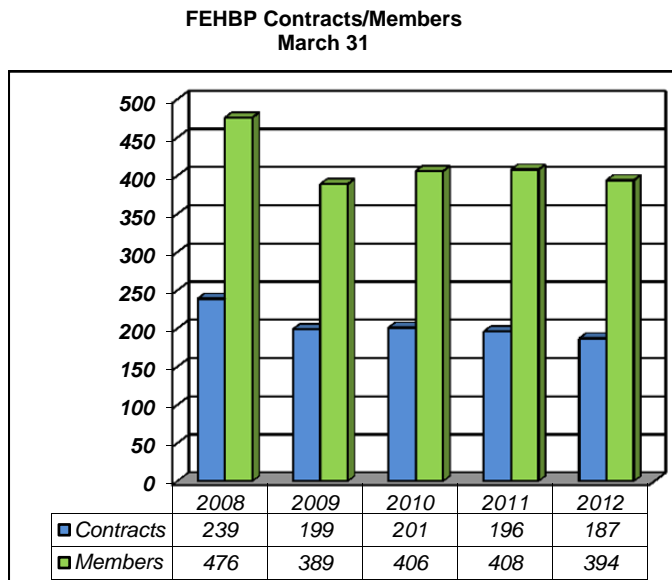
The audit was conducted pursuant to FEHBP contract CS 2648; 5 United States Code (U.S.C.) Chapter 89; and 5 Code of Federal Regulations Chapter 1, Part 890. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector 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. The FEHBP 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 1993 and provides health benefits to FEHBP members in Northeast Indiana. The last audit conducted by our office was a performance audit and covered contract years 2002 through 2005. The audit identified several errors including an incorrect rate adjustment factor, speech therapy loading, morbid obesity loading, and a Similarly Sized Subscriber Group (SSSG) discount that was not applied to the FEHBP rates. All audit issues from that audit have been resolved.

The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in preparation of this report and are included, as appropriate, as the Appendix to the report.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

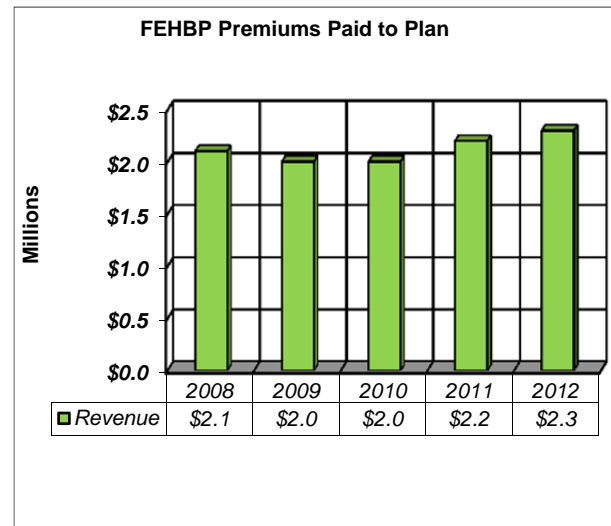
### Objectives

The primary objectives of the audit were to determine if the FEHBP premium rates are developed using complete, accurate and current data, and are equivalent to the Plan's SSSGs, as provided in 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 2008 through 2012. For these years, the FEHBP paid approximately \$10.6 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 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 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 from July 21, 2014 through August 1, 2014 at the Plan's office in Fort Wayne, Indiana.

### **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

## Premium Rate Review

### 1. Defective Pricing

**\$83,505**

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 \$83,505 (see Exhibit A). While rating discrepancies were also identified in contract years 2008 through 2010, and 2012, we found that there was no material cost impact to the FEHBP rates in these years.

**The FEHBP is due a rate reduction of \$83,505 for defective pricing 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 are complete, accurate and current. Furthermore, FEHBAR 1652.216-70 states that the subscription rates agreed to in the contract shall be equivalent to the subscription rates given to the community-rated carrier's SSSGs as defined in FEHBAR 1602.170-13. SSSGs are the Plan's two employer groups closest in subscriber size to the FEHBP. If it is found that the FEHBP rates were increased because of defective pricing or defective cost or pricing data, then the rates shall be reduced in the amount by which the price was increased because of the defective data or information.

### 2011

We agree with the Plan's selection of [REDACTED] and [REDACTED] as SSSGs for contract year 2011. The FEHBP and the SSSGs were rated using a blended Adjusted Community Rating (ACR) and Community Rating by Class (CRC) methodology. We found that the Plan discounted the proposed 2011 FEHBP rates. However, our analysis of the rates charged to the SSSGs shows that [REDACTED] did not receive a discount and [REDACTED] receiving a [REDACTED] percent discount.

The Plan used a [REDACTED] industry factor to adjust the community rates for [REDACTED]. The Plan used a [REDACTED] factor for the FEHBP. Per the 2011 rate instructions, the industry factor used for the Federal group must be 1.0 or less. The Federal group industry factor must also be no larger than the lowest industry factor used for an SSSG. As a result, we changed [REDACTED] industry factor to [REDACTED] and held the FEHBP industry factor to [REDACTED], since the factor only impacted a portion of the calculated rate. The change in industry factor resulted in

██████████ discount increasing from ██████ percent to ██████ percent. In addition, we removed the 2010 medical adjustment applied to the FEHBP's rates. It is the Plan's practice not to adjust for changes within the experience period.

We then applied the largest SSSG discount of ██████ percent to our audited rates. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$83,505 (see Exhibit B).

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

██████████ Industry Factor

The Plan agrees that the FEHBP was overcharged, but believes the ██████ industry factor should be applied to the FEHBP rate development, instead of the ██████ industry factor being increased to ██████. The Plan believes that ██████ rates were discounted by ██████ percent due to this error, resulting in a premium adjustment of \$53,820 to the FEHBP

2010 Medical Adjustment Removal

The Plan did not address this issue.

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

██████████ Industry Factor

OIG disagrees with this approach. Although the rate instructions state the FEHBP should receive the lowest factor, the intent of the rate instructions is for the FEHBP to be rated fairly. Because both groups use a blended ACR and CRC methodology, the FEHBP would not receive the same equivalent rate advantage that was given to the SSSG. This is due to the SSSG receiving a ██████ percent reduction on ██████ percent of the rates, whereas the FEHBP would only receive the ██████ percent reduction on ██████ percent of the rates. If the SSSG's industry factor is moved to ██████, both the SSSG and FEHBP receive an equivalent rate advantage.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$83,505 to the FEHBP for defective pricing in contract year 2011.

## **2. Lost Investment Income**

**\$6,254**

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 year 2011. We determined the FEHBP is due \$6,254 for lost investment income, calculated through April 30, 2015 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning May 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

**The FEHBP is due lost investment income on the defective pricing finding in the amount of \$6,254.**

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 agrees that lost investment income should be charged; however, it does not agree with the amount questioned. The Plan's lost investment income amount is based on its revised FEHBP overcharge calculation.

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

We maintain that lost investment income is due the FEHBP in the amount of \$6,254, calculated through April 30, 2015.

### **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$6,254 to the FEHBP for lost investment income, calculated through April 30, 2015. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning May 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

### **3. Inconsistent Rating Methodology**

In contract years 2008 through 2012, we found that the Plan did not have adequate rating system controls to ensure that the FEHBP and groups closest in size are rated consistently. We determined the Plan was not adjusting claims experience for experience period benefit changes for the SSSGs, although the adjustment was applied to the FEHBP for all years under review. Failure to correct this issue may result in the potential for future inaccurate and inconsistent calculations, and reporting of OPM's new medical loss ratio methodology requirements.

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

The Plan did not address this issue in its response.

#### **Recommendation 3**

We recommend that the contracting officer require the Plan to correct this internal control weakness related to its rating system or implement mitigating controls to minimize the inconsistency in its rating methodology.

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## COMMUNITY-RATED AUDITS GROUP

[REDACTED], Auditor-in-Charge

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Auditor

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[REDACTED], Senior Team Leader

[REDACTED], Chief

# EXHIBIT A

## Physicians Health Plan of Northern Indiana Summary of Questioned Costs

### Defective Pricing Questioned Costs

Contract Year 2011	<u>\$83,505</u>	
Total Defective Pricing Questioned Costs		\$83,505
Lost Investment Income		<u>\$6,254</u>
Total Questioned Costs		<u><b>\$89,759</b></u>

# EXHIBIT B

## Physicians Health Plan of Northern Indiana 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>\$83,505</u>
Total Defective Pricing Questioned Costs			<u>\$83,505</u>

# EXHIBIT C

## Physicians Health Plan of Northern Indiana Lost Investment Income

Year	2011	2012	2013	2014	30-Apr-15	Total
<b>Audit Findings:</b>						
1. Defective Pricing	\$83,505	\$0	\$0	\$0	\$0	\$83,505
<hr/>						
Totals (per year):	\$83,505	\$0	\$0	\$0	\$0	\$83,505
Cumulative Totals:	\$83,505	\$83,505	\$83,505	\$83,505	\$83,505	\$83,505
Avg. Interest Rate (per year):	2.5625%	1.8750%	1.5625%	2.0625%	2.1250%	
Interest on Prior Years Findings:	\$0	\$1,566	\$1,305	\$1,722	\$591	\$5,184
Current Years Interest:	\$1,070	\$0	\$0	\$0	\$0	\$1,070
<hr/>						
Total Cumulative Interest Calculated Through April 30, 2015:	\$1,070	\$1,566	\$1,305	\$1,722	\$591	<b>\$6,254</b>



# APPENDIX

January 21, 2015

██████████  
Chief, Community-Rated Audits Group  
U.S. Office of Personnel Management  
Office of the Inspector General  
800 Cranberry Woods Drive  
Suite 270  
Cranberry Township, Pennsylvania 16066

Dear ██████████:

This letter and the accompanying attachments are in response to the draft report received by Physicians Health Plan of Northern Indiana, Inc. on November 24, 2014. The draft report was for an audit performed in July of 2014, and covered contract years 2008 through 2012.

Of the five years reviewed in this audit, only one year was found to have defective pricing which resulted in an inappropriate charge to the FEHBP. For contract years 2008, 2009, 2010 and 2012, the report found that the rates charged for those contract years were appropriate. For these four years, we agree with the findings of this draft report and will consider each of these contract years closed.

For contract year 2011, the draft report determined that the FEHBP was overcharged by \$85,673. This discrepancy in pricing was caused by an industry factor of ██████████ applied during the calculation of the community rate for one of our SSSGs, ██████████. During that same year, we used an industry factor of ██████████ for the FEHB. Per the 2011 Rate Instructions to community rated carriers, the industry factor used for the Federal group must be 1.0 or less. The Federal group industry factor must be no larger than the lowest industry factor used for an SSSG and must be no larger than 1.0. We agree that a mistake was made in pricing 2011, which resulted in the FEHBP being overcharged.

The audit report corrects for this error by increasing the industry factor to ██████████ for the SSSG (██████████) to match the factor used in pricing the FEHBP. However, this change does not follow underwriting guidelines in use by Physicians Health Plan in 2011. ██████████ had an SIC Code of ██████████ (██████████). I have attached to this report (on the CD) a listing of all industry factors used by Physicians Health Plan during 2011. The industry factor for ██████████ is ██████████ and is highlighted.

Rather than increase the factor to ██████████ for both the SSSG and the FEHBP, we believe the 2011 Rate Instructions would call for the industry factor for the FEHBP to be lowered to

the lowest appropriate factor for the SSSGs. In this case we would lower the factor for the FEHBP to [REDACTED].

I have attached a spreadsheet used by the auditors to develop Audited Rates for [REDACTED]. The tab labeled "BWB" includes PHP's underwriting formula for [REDACTED]. In cell I33, I have set the Industry Factor to [REDACTED] (matching the original underwriting). I have also turned this factor "red" to make it easily identifiable. This is the only change made to the auditor's spreadsheet. Changing this factor lowers the Audited Rates found on the Summary tab. It also recalculates the discount provided to [REDACTED] and lowers it to [REDACTED] %.

I have also attached a spreadsheet used by the auditors to develop Audited Rates for the FEHBP. On the first tab titled "Lead Schedule", the Audited Rates from each of the SSSGs are input items. I have copied the new Audited Rates from the [REDACTED] spreadsheet into this spreadsheet. Again, I have turned the rates "red" to indicate a change in the spreadsheet.

The "FEHBP" tab includes PHP's underwriting formula for the OPM group. In cell I36, I have set the Industry Factor to [REDACTED] (which is a correction of the [REDACTED] factor used in the original underwriting). We believe this correction is in compliance with the 2011 Rate Instructions. Again, I have changed this factor to "red" to indicate a change from the auditor's calculation.

#### **Deleted by OIG-Not Relevant to Final Report**

The tab labeled "Exhibit A" details the difference between the original plan pricing for the FEHBP and the auditor's pricing. Including the revised Industry Factor of [REDACTED] for FEHBP Deleted by OIG-Not Relevant to Final Report results in an overcharge for the FEHBP of \$53,820. Physicians Health Plan agrees with this amount and is prepared to reimburse the FEHBP as soon as possible.

The Lost Investment Income calculated by the OIG auditor was \$5,810 as of December 31, 2014. This amount was calculated based upon the original assumed overcharge of \$85,673. We would respectfully ask that this Investment Income amount be recalculated using the revised overcharge amount of \$53,820 and extended to the expected date of final payment.

Physicians Health Plan deeply regrets the pricing error committed in the 2011 contract year and wants to make full restitutions as soon as possible. If you have any questions about the information provided or would like to discuss the report in person, feel free to contact me at [REDACTED] or by email at [REDACTED]@PHPNI.com. I look forward to reviewing your response and the final audit report.

Sincerely,

  
Director of Actuarial & Analytical Services



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