



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

Final Audit Report

Subject:

AUDIT OF OPTIMA HEALTH PLAN VIRGINIA BEACH, VIRGINIA

Report No. 1D-9R-00-11-001

Date: May 18, 2011

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AUDIT REPORT

Federal Employees Health Benefits Program
Experience-Rated Health Maintenance Organization

Optima Health Plan
Contract CS 2842 Plan Code 9R
Virginia Beach, Virginia

REPORT NO. 1D-9R-00-11-001

DATE: May 18, 2011



Michael R. Esser
Assistant Inspector General
for Audits

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Experience-Rated Health Maintenance Organization

Optima Health Plan
Contract CS 2842 Plan Code 9R
Virginia Beach, Virginia

REPORT NO. 1D-9R-00-11-001

DATE: May 18, 2011

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Optima Health Plan (Plan), in Virginia Beach, Virginia, questions \$179,778 in lost investment income on FEHBP funds. The Plan agreed (A) with this questioned amount

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits from 2005 through June 30, 2010, as well as administrative expenses from 2005 through 2009 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2005 through June 30, 2010.

The audit results are summarized as follows:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

- **Financial Adjustments – Lost Investment Income (A)** **\$179,778**

The Plan returned \$4,438,747 to the letter of credit account (LOCA) in an untimely manner. These funds consisted of health benefit refunds, uncashed check write-offs, investment income, and a duplicate service charge drawdown. Although these funds were deposited timely and held in a dedicated investment account, the Plan returned the funds untimely to the LOCA. Therefore, we calculated that the FEHBP would have earned additional investment income of \$179,778 on these funds if the Plan had returned the funds timely to the LOCA.

B. ADMINISTRATIVE EXPENSES

The audit disclosed no findings pertaining to administrative expenses. Overall, we concluded that the administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable laws and regulations.

C. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2842 and applicable laws and regulations, except for the finding pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Optima Health Plan (Plan). The Plan is located in Virginia Beach, Virginia.

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 (FEHB) 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. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.¹ Enrollment is open to all federal employees and annuitants that live or work in the Plan's service area. The Plan's service area includes the following areas in Virginia: Hampton Roads, Charlottesville, Fredericksburg, Lynchburg, Richmond, and Roanoke.

The Plan's contract (CS 2842) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses which have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Plan's management. Also, management of the Plan is responsible for establishing and maintaining a system of internal controls.

Our previous audit of the Plan covered corporate allocations for contract year 2001 and disclosed no findings.

¹ Members of an experience-rated HMO have the option of using a designated network of providers or using non-network providers. A member's choice in selecting one healthcare provider over another has monetary and medical implications. For example, if a member chooses a non-network provider, the member will pay a substantial portion of the charges and benefits available may be less comprehensive.

The results of this audit were provided to the Plan in a written audit inquiry (finding) during fieldwork, and were discussed with the Plan officials throughout the audit and at an exit conference. The Plan's comments offered in response to our audit inquiry were considered in preparing our final report and are included as an Appendix to this report. Since the Plan provided a complete response to our audit inquiry, we bypassed the draft report and only issued a final report. The Plan agreed with this decision.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

Cash Management

- To determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

SCOPE

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

We reviewed the Plan's Annual Accounting Statements for contract years 2005 through 2009. During this period, the Plan paid approximately \$295 million in health benefit charges and \$14 million in administrative expenses (See Figure 1 and Schedule A). The Plan also paid approximately \$2.4 million in other expenses and retentions (See Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, fraud recoveries, uncashed checks, and prescription drug rebates) and cash management for 2005 through June 30, 2010. We also reviewed administrative expenses for 2005 through 2009.

In planning and conducting our audit, we obtained an understanding of the Plan’s internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan’s internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan’s system of internal controls taken as a whole.

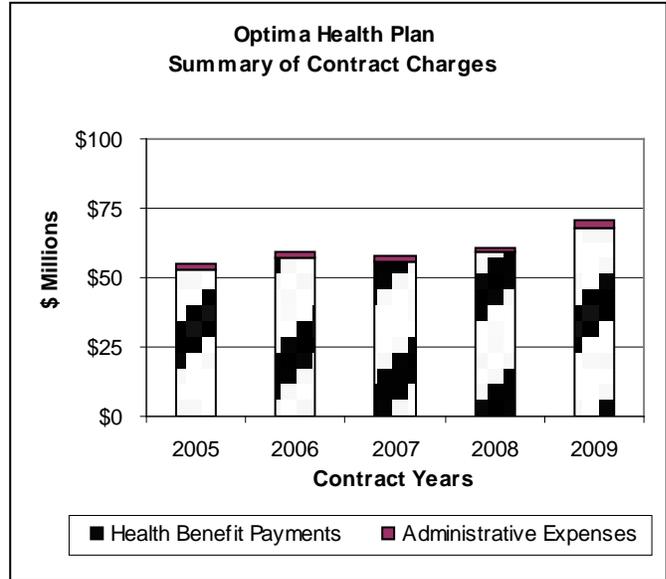


Figure 1– Contract Charges

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various systems involved. However, while utilizing the computer-generated data during our audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data available was sufficient to achieve our audit objectives.

The audit was performed at the Plan’s office in Virginia Beach, Virginia from November 8 through November 19, 2010 and December 6 through December 17, 2010. Audit fieldwork was also performed at our offices in Washington, D.C. and Jacksonville, Florida.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan’s financial, cost accounting, and cash management systems by inquiry of Plan officials.

We interviewed Plan personnel and reviewed the Plan’s policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also

judgmentally selected and reviewed 134 health benefit refunds, totaling \$879,923 (from a universe of 5,133 refunds, totaling \$1,825,106); 20 subrogation cases, totaling \$66,325 in recoveries (from a universe of 39 cases, totaling \$71,805 in recoveries); all quarterly drug rebate allocations, totaling \$2,568,359; all uncashed check write-offs, totaling \$77,665; and all fraud recoveries, totaling \$11,776, to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.² The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2005 through 2009. Specifically, we reviewed administrative expenses relating to cost centers, expense accounts, pension, post-retirement, employee health benefits, executive compensation, and lobbying. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges. The results of the testing were not projected to the universe of administrative expenses.

We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2842 and applicable laws and regulations.

² The sample of health benefit refunds consisted of all refunds greater than \$2,000. For subrogation, the sample consisted of all cases with recoveries greater than \$500.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Financial Adjustments – Lost Investment Income **\$179,778**

The Plan returned \$4,438,747 to the letter of credit account (LOCA) in an untimely manner. These funds consisted of health benefit refunds, uncashed check write-offs, investment income, and a duplicate service charge drawdown. Although these funds were deposited timely and held in a dedicated investment account, the Plan returned the funds untimely to the LOCA. Therefore, we calculated that the FEHBP would have earned additional investment income of \$179,778 on these funds if the Plan had returned the funds timely to the LOCA.

48 CFR 31.201-5 states, “The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.”

Contract CS 2842, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier.”

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

During our review of miscellaneous health benefit payments and credits, we verified that the Plan untimely returned \$4,438,747 in FEHBP funds to the LOCA (i.e., \$4,400,000 via bank wire transfer to OPM on June 25, 2010 and \$38,747 via LOCA drawdown adjustment on November 24, 2010). These funds consisted of \$3,474,820 in health benefit refunds received from 1999 through 2004 and April 2006 through May 2010; \$77,665 in uncashed checks written-off in December 2006, August 2007, and March 2010; \$491,583 in investment income earned on FEHBP funds from 1999 through 2009; and \$394,679 for a duplicate amount withdrawn from the LOCA in 2006 for the 2005 service charge.³ The Plan informed us that they were unaware of the complete LOCA process, which is the reason for the delay in returning these funds to the FEHBP.

³ During the audit scope, the Plan withdrew funds from the LOCA on a “checks-issued” basis. As a result, the \$4,438,747 also included uncashed checks that were issued from 2004 through 2008 and written-off on December 31, 2006, August 27, 2007, and March 31, 2010. Starting in November 2010, we noted that the Plan changed from the “checks-issued” to the “checks-presented” basis for withdrawing funds from the LOCA.

We did an analysis to determine how much investment income would have been earned on the \$4,438,747 if these funds had been returned timely to the LOCA compared to the actual investment income earned on these funds in the dedicated investment account. We calculated that these funds would have earned an additional \$179,778 in the LOCA if returned timely.

Plan's Response:

The Plan agrees with this finding and returned the questioned amount of \$179,778 to the FEHBP on December 21, 2010 via LOCA adjustment. The Plan has implemented operating procedure improvements to promptly return funds to the LOCA, and made other improved changes to their accounting practices.

OIG Comments:

We verified that the Plan returned the questioned amount of \$179,778 to the FEHBP on December 21, 2010.

Recommendation 1

Since we verified that the Plan returned the questioned lost investment income of \$179,778 to the FEHBP, no further action is required for this questioned amount.

Recommendation 2

We recommend that the contracting officer verify that the Plan has implemented corrective actions to ensure that FEHBP funds, such as health benefit refunds and investment income, are timely returned to the LOCA. We also recommend that the contracting officer ensure that the Plan has a complete understanding of the LOCA process.

B. ADMINISTRATIVE EXPENSES

The audit disclosed no findings pertaining to administrative expenses. Overall, we concluded that the administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable laws and regulations.

C. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 2842 and applicable laws and regulations, except for the finding pertaining to cash management noted in the "Miscellaneous Health Benefit Payments and Credits" section.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

████████████████████, Auditor

██████████, Chief ██████████

██████████, Senior Team Leader

V. SCHEDULE A

**OPTIMA HEALTH PLAN
VIRGINIA BEACH, VIRGINIA**

CONTRACT CHARGES AND AMOUNTS QUESTIONED

CONTRACT CHARGES (PLAN CODE 9R)*	2005	2006	2007	2008	2009	TOTAL	
HEALTH BENEFIT CHARGES	\$53,562,111	\$57,506,078	\$56,334,711	\$59,227,041	\$68,414,835	\$295,044,776	
ADMINISTRATIVE EXPENSES	2,711,412	2,623,512	2,842,584	2,769,732	3,405,422	14,352,662	
OTHER EXPENSES AND RETENTIONS	460,974	479,392	506,643	520,955	449,806	2,417,770	
TOTAL CONTRACT CHARGES	\$56,734,497	\$60,608,982	\$59,683,938	\$62,517,728	\$72,270,063	\$311,815,208	
AMOUNTS QUESTIONED	2005	2006	2007	2008	2009	2010	TOTAL
MISCELLANEOUS HEALTH BENEFIT							
A. PAYMENTS AND CREDITS							
1. Financial Adjustments - Lost Investment Income**	\$0	\$0	\$0	\$0	\$0	\$179,778	\$179,778
B. ADMINISTRATIVE EXPENSES	0	0	0	0	0	0	0
C. CASH MANAGEMENT	0	0	0	0	0	0	0
TOTAL AMOUNTS QUESTIONED	\$0	\$0	\$0	\$0	\$0	\$179,778	\$179,778

* We did not review claim payments and other expenses and retentions.

** Although this questioned amount includes lost investment income from 1999 through June 2010, we included the total amount in 2010 for simplicity.

December 28, 2010


Auditor
U S Office of Personnel Management
Office of the Inspector General
701 San Marco Blvd
Jacksonville, FL 32207

RE: Optima Health Plan
Federal Employees Health Benefits Program (FEHBP)
Audit Findings as of December 16, 2010

Dear :

As requested, Optima Health Plan (OHP) management's response is provided to the audit finding regarding Financial Recoveries.

Audit Finding Summary

Optima Health Plan (OHP) did not properly manage cash for health benefit refunds and recoveries, interest income, service charge and uncashed health benefit checks received. OHP deposited these recoveries into the FEP investment account, however OHP did not adjust the Letter of Credit Account (LOCA) in a timely manner. As a result, the FEHBP is due an additional \$179,778 for the interest that would have been earned if OHP had returned the funds to the LOCA in a timely manner.

OHP Response

OHP agrees with the findings. The plan paid the FEHBP \$179,778 on December 21, 2010 by a reduction of the same amount on the draw down of \$716,006.67. Enclosed is the documentation to support the payment.

Additionally, OHP has implemented improved operating procedures to promptly return funds to the LOCA in the future, and made other improved changes to our accounting practices.

If you have any questions, please contact me at .

Sincerely,


Controller

Enclosures