



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 of M.D. Individual Practice Association, Inc.

Report No. 1C-JP-00-09-051

Date: February 19, 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  
M.D. Individual Practice Association, Inc.  
Contract Number CS 1935 - Plan Code JP  
Hartford, Connecticut**

Report No. 1C-JP-00-09-051

Date: February 19, 2010

A handwritten signature in black ink, appearing to read "Michael R. Esser".

**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  
M.D. Individual Practice Association, Inc.  
Contract Number CS 1935 - Plan Code JP  
Hartford, Connecticut**

**Report No. 1C-JP-00-09-051**

**Date: February 19, 2010**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at M.D. Individual Practice Association, Inc. (Plan). The audit covered contract years 2005 and 2007 through 2009 and was conducted at the Plan's office in Hartford, Connecticut. This report details procedural findings related to the Plan's claims data submission. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2005 and 2007 through 2009.

## CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY.....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATION .....	5
Premium Rate Review .....	5
Claims Review .....	5
1. Payment for Non-Covered Services.....	5
2. Incorrect Unbundling of Claims .....	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT .....	7
Appendix (M.D. Individual Practice Association, Inc.’s January 13, 2010, response to the draft report)	

# I. INTRODUCTION AND BACKGROUND

## Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at M.D. Individual Practice Association, Inc. (Plan) in Hartford, Connecticut. The audit covered contract years 2005 and 2007 through 2009. The audit was conducted pursuant to the provisions of Contract CS 1935; 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.

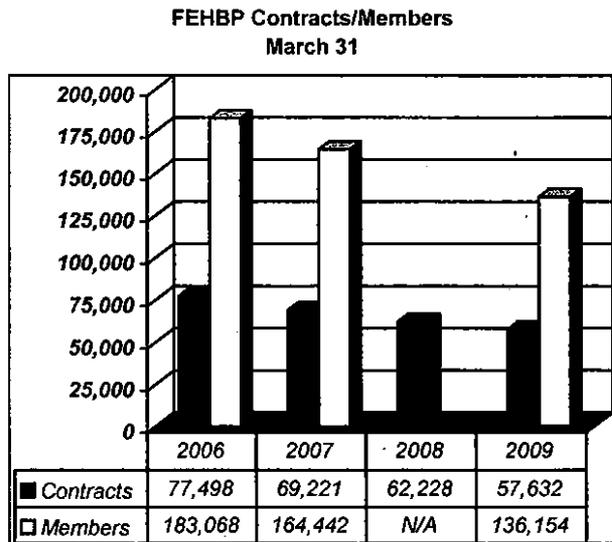
## Background

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 number of members for 2008 was not available).



The Plan has participated in the FEHBP since 1983 and provides health benefits to FEHBP members throughout the Washington, D.C., Maryland, Northern Virginia, Roanoke, Richmond, and Tidewater areas. The last audit conducted by our office covered contract year 2006. As a result of that audit, we found that the Plan's rating of the FEHBP in contract year 2006 was in accordance with the applicable laws, regulations, and OPM rating instructions.

The preliminary results of this audit were discussed with Plan officials at an exit conference and through 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 final report and are included, as appropriate, as the Appendix.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

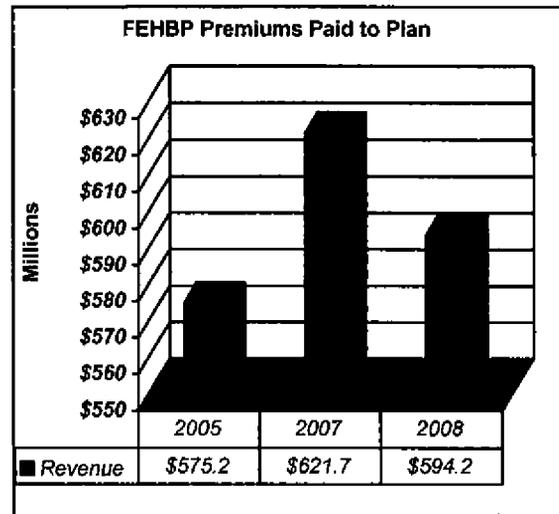
### Objectives

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 2005 and 2007 through 2009. For contract years 2005, 2007, and 2008, the FEHBP paid approximately \$1.8 billion in premiums to the Plan.<sup>1</sup> The premiums paid for each contract year audited are shown on the chart to the right.



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 SSSGs); and

<sup>1</sup> The Subscription Income Report for 2009 was not available at the time this report was completed.

- 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 Hartford, Connecticut, during July 2009. Additional audit work was completed at our office in Washington, D.C.

### **Methodology**

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations, and OPM's Rate Instructions to Community-Rated Carriers to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

To gain an understanding of the internal controls in the Plan's rating system, we reviewed the Plan's rating system's policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

### **III. AUDIT FINDINGS AND RECOMMENDATION**

#### **Premium Rate Review**

Our audit showed that the Plan's rating of the FEHBP was in accordance with the applicable laws, regulations, and OPM's rating instructions to carriers for contract years 2005 and 2007 through 2009. Consequently, the audit did not identify any questioned costs.

#### **Claims Review**

In FEHBP Program Carrier Letters 2006-14, 2007-09, and 2008-09, the Office of Personnel Management requires all carriers to keep on file all data necessary to justify its Adjusted Community Rating (ACR) rate and save back-up copies of their claims databases for audit purposes. We reviewed FEHBP claims data for contract years 2007 through 2009. We ran queries on the claims data that relate to hospital, physician, out-of-area, prescription drugs and injectible drugs, large claims, coordination of benefits, bundling of claims, and non-covered benefits according to the FEHBP benefit brochures. We found that in 2007 through 2009, the Plan paid for non-covered benefits.

##### **1. Payment for Non-Covered Services**

The elective abortion claims review produced several claims that were questionable. Based on our review, there were non-covered abortion claims paid for 2007 through 2009. The claims totals were not significant enough to affect the 2007 through 2009 premiums; however, the Plan should not cover claims for elective abortions.

##### **2. Incorrect Unbundling of Claims**

There were claims that were incorrectly unbundled for contract years 2007 through 2009. The claims that should have been bundled are Current Procedural Terminology codes 80048 (Basic Metabolic Panel) and 80051 (Electrolyte Panel). The claims that had these codes were questioned because the primary code should have been applied for a one-time charge. The Plan agrees that several claims in 2008 should have been bundled. Additionally, we understand that there are certain types of claims that are exempt from medical edit software based on the plan's medical policy for 2007 through 2009. However, we still questioned these claims because it is a best practice for all claims to go through the medical edit software. Claims that are exempt from medical edits software because they are from a non-participating provider have a greater risk of being processed inaccurately and generating erroneous payments, increasing the costs to the FEHBP. The claims totals were not large enough to have an effect on the premiums for 2007 through 2009. However, the Plan should take the necessary precautions to verify that the claims are being bundled appropriately.

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

The Plan concurs.

**Recommendation 1**

We recommend that the Plan take the necessary precautions to remove elective abortion claims and bundle claims appropriately in the future.

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

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

██████████ Auditor-In-Charge

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2010 JAN 14 PM 3:28  
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Attorneys & Counselors

January 13, 2010

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Chief, Community-Rated Audits Group  
Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E. Street, NW, Room 6400  
Washington, DC 20415-1100

Re: Comments to the Draft Audit Report on M.D. Individual Practice Association, Inc., Plan Code JP, Report No. 1C-JP-00-09-051

Dear ██████████

We represent M.D. Individual Practice Association, Inc., a UnitedHealthcare Company ("UnitedHealthcare") in connection with the above referenced matter. UnitedHealthcare is responding to this audit on behalf of M.D. Individual Practice Association, Inc. ("MDIPA" or "the Plan").

On November 24, 2009, the United States Office of Personnel Management, Office of the Inspector General ("OPM/OIG") submitted to the Plan a "Draft Report" (1C-JP-00-09-051) ("Draft Report"), detailing the results of its audit of the Federal Employee Health Benefits Program ("FEHBP") operations of MDIPA for contract years 2005 and 2007 through 2009. Upon submission, OPM/OIG requested that the Plan provide comments to the Draft Report. The Plan appreciates the opportunity to respond to this Draft Report.

At the time of the audit, the Plan discussed with the OIG auditors the erroneous payment of claims for non-covered elective abortions. The Plan agrees that it should not pay for non-covered elective abortions.

The Plan agrees with the OIG auditors that some 2008 claims should have been bundled differently. The Plan is not aware of any 2007 or 2009 claims that were not properly bundled. We do agree, however, that some claims for 2007 and 2009 were not subject to the medical edit software, because they were claims for services provided by free-standing facilities.

The OIG has concluded that the above erroneous payments were not significant enough to affect the FEHBP Premiums for 2007 through 2009, and that no amounts are due OPM.

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NOT RELEVANT TO THE FINAL**

**DELETED BY THE OIG  
NOT RELEVANT TO THE FINAL**

Please contact me at the address, phone number or e-mail on this letterhead if you have any questions or require additional information. We appreciate your ongoing cooperation.

Very truly yours,

LOCKE, LORD, BISSELL & LIDDELL LLP



cc:



Director, Underwriting  
UnitedHealthcare