



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

Final Audit Report

Subject:

Audit of the Federal Employees Health Benefits Program Operations of Univera Healthcare

Report No. 1C-Q8-00-09-008

Date: September 8, 2009

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Univera Healthcare
Contract Number 1891 - Plan Code Q8
Buffalo, New York**

Report No. 1C-Q8-00-09-008

Date: September 8, 2009

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

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



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Univera Healthcare
Contract Number 1891 - Plan Code Q8
Buffalo, New York**

Report No. 1C-Q8-00-09-008

Date: September 8, 2009

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Univera Healthcare (Plan). The audit covered contract years 2004, 2005, 2007, and 2008 and was conducted at the Plan's office in Rochester, New York. This report questions \$3,982,122 for defective pricing in 2005, 2007, and 2008, including \$354,140 for related lost investment income.

For contract years 2005, 2007, and 2008, we determined that the FEHBP rates were overstated by \$226,404, \$2,437,976, and \$963,602, respectively, because the Plan did not apply a similarly sized subscriber group discount to the FEHBP's rates.

Consistent with the FEHBP regulations and the contract, the FEHBP is due \$354,140 for lost investment income, calculated through June 30, 2009, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning July 1, 2009, 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 Univera Healthcare (Plan) in Buffalo, New York. The audit covered contract years 2004, 2005, 2007, and 2008. The audit was conducted pursuant to the provisions of Contract CS 1891; 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

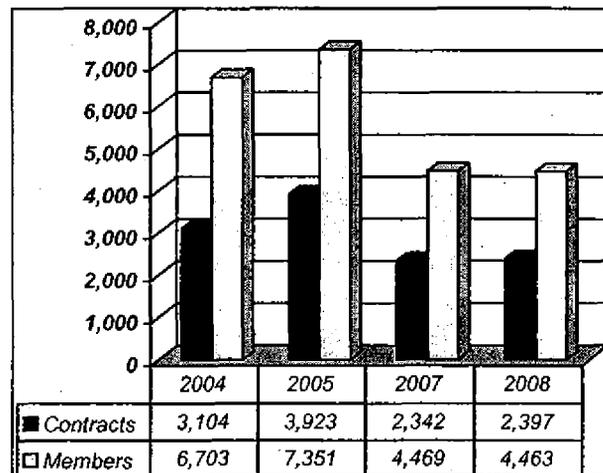
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Center for Retirement and Insurance Services. 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.

FEHBP Contracts/Members
March 31



The Plan has participated in the FEHBP since 1980 and provides health benefits to FEHBP members in the northern counties of western New York State. The last audit conducted by our office was a rate reconciliation audit and covered contract year 2006. All matters related to 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 agrees with our findings.

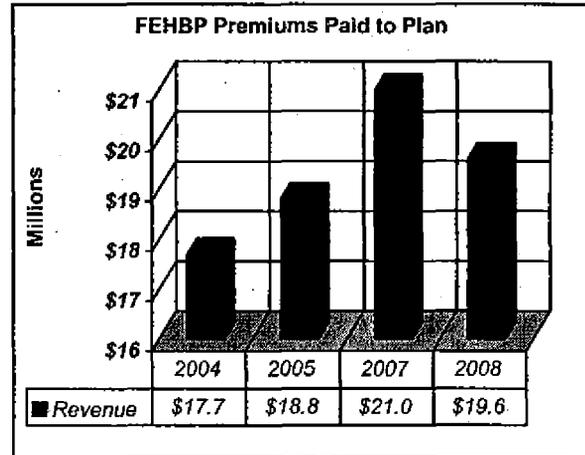
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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, 2005, 2007, and 2008. For these contract years, the FEHBP paid approximately \$77.1 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 Rochester, New York during October 2008. Additional audit work was completed at our field office in Cranberry Township, Pennsylvania.

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

\$3,627,982

The Certificates of Accurate Pricing the Plan signed for contract years 2005, 2007, and 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 \$3,627,982 (see Exhibit A).

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.

2005

We agree with the Plan's selection of [REDACTED] and [REDACTED] as the SSSGs for contract year 2005.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount, which was not applied to the FEHBP. [REDACTED] did not receive a discount. Since OPM requires plans to apply the same SSSG discount to the FEHBP, we recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED]. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$226,404 in 2005 (see Exhibit B).

2007

The Plan selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2007. We agree with the selection of [REDACTED] but disagree with the selection of [REDACTED]. [REDACTED] should have been selected as an SSSG since it was closer in enrollment size to the FEHBP and because it met SSSG requirements.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received an [REDACTED] percent discount, which was not applied to the FEHBP. [REDACTED] did not receive a discount. Since OPM requires plans to apply the same SSSG discount to the FEHBP, we recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED]. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$2,437,976 in 2007 (see Exhibit B).

2008

The Plan selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2008. Again, we agree with the selection of [REDACTED] but disagree with the selection of [REDACTED]. [REDACTED] should have been selected as an SSSG since it was closer in enrollment size to the FEHBP and because it met SSSG requirements.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount, which was not applied to the FEHBP. [REDACTED] did not receive a discount. Since OPM requires plans to apply the same SSSG discount to the FEHBP, we recalculated the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED]. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$963,602 in 2007 (see Exhibit B).

Recommendation 1

We recommend that the contracting officer require the Plan to return \$3,627,982 to the FEHBP for defective pricing in contract years 2005, 2007, and 2008.

Plan's Comments

The Plan agrees with our findings.

2. Lost Investment Income

\$354,140

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing findings due the FEHBP in contract years 2005, 2007, and 2008. We determined that the FEHBP is due \$354,140 for lost investment income, calculated through June 30, 2009 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning July 1, 2009, until all defective pricing finding 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 were not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$354,140 to the FEHBP for lost investment income for the period January 1, 2005 through June 30, 2009. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning July 1, 2009, until all defective pricing amounts have been returned to the FEHBP.

Plan's Comments

The Plan agrees with our findings.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

██████████ Chief

██████████, Senior Team Leader

**Univera Healthcare
Western New York - Northern Counties
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2005	\$226,404
Contract Year 2007	\$2,437,976
Contract Year 2008	<u>\$963,602</u>
Total Defective Pricing Questioned Costs	\$3,627,982
Lost Investment Income	<u>\$354,140</u>
Total Questioned Costs	<u>\$3,982,122</u>

**Univera Healthcare
Western New York - Northern Counties
Defective Pricing Questioned Costs**

2005 Contract Year

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates			
Audited Rates			
Biweekly Overcharge			
To Annualize:			
x March 31, 2005 Headcount			
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Amount Due FEHBP in 2005			\$226,404

2007 Contract Year

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates			
Audited Rates			
Biweekly Overcharge			
To Annualize:			
x March 31, 2007 Headcount			
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Amount Due FEHBP in 2007			\$2,437,976

2008 Contract Year

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates			
Audited Rates			
Biweekly Overcharge			
To Annualize:			
x March 31, 2008 Headcount			
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Amount Due FEHBP in 2008			\$963,602

Total Defective Pricing Questioned Costs	<u>\$3,627,982</u>
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**Univera Healthcare
Western New York - Northern Counties
Lost Investment Income**

Year	2005	2006	2007	2008	30-Jun-09	Total
Audit Findings:						
Defective Pricing	\$226,404	\$0	\$2,437,976	\$963,602	\$0	\$3,627,982
<hr/>						
Totals (per year):	\$226,404	\$0	\$2,437,976	\$963,602	\$0	\$3,627,982
Cumulative Totals:	\$226,404	\$226,404	\$2,664,380	\$3,627,982	\$3,627,982	\$3,627,982
Average Annual Interest Rate:	4.375%	5.4375%	5.5000%	4.9375%	5.6250%	
Interest on Prior Years Findings:	\$0	\$12,311	\$12,452	\$131,554	\$102,037	\$258,354
Current Years Interest:	\$4,953	\$0	\$67,044	\$23,789	\$0	\$95,786
Total Cumulative Interest Through June 30, 2009	\$4,953	\$12,311	\$79,496	\$155,343	\$102,037	\$354,140



August 10, 2009

US Office of Personnel Management
Office of the Inspector General
800 Cranberry Twp, PA 16066

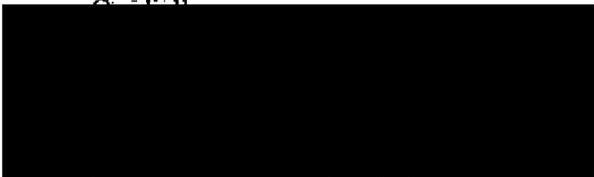
Dear [REDACTED]:

I am writing to you to inform you of Univera Health Plan's agreement with the settlement numbers presented by your office via email on August 5, 2009.

The settlement in question encompasses pricing adjustments and lost investment income for the years 2005, 2007, and 2008. Univera agrees to the settlement of \$3,627,982 of pricing adjustments and \$354,140 of lost investment income resulting in a total settlement of \$3,982,122.

Please let us know if you have any questions and what the next steps in this process are.

Sincerely,



Vice President, Rating & Underwriting