



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 OSF HealthPlans, Inc.**

**Report No. 1C-9F-00-09-064**

**Date: July 22, 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  
Comprehensive Medical Plan - Community-Rated  
OSF HealthPlans, Inc.  
Contract Number 2829-A - Plan Code 9F  
Peoria, Illinois**

**Report No. 1C-9F-00-09-064**

**Date: July 22, 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  
Comprehensive Medical Plan - Community-Rated  
OSF HealthPlans, Inc.  
Contract Number 2829-A - Plan Code 9F  
Peoria, Illinois**

**Report No. 1C-9F-00-09-064**

**Date: July 22, 2010**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at OSF HealthPlans, Inc. (Plan). The audit covered contract years 2005, 2006, 2008, and 2009 and was conducted as a desk audit in our Washington, D.C. office. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2005 and 2006.

In contract years 2008 and 2009, we found that the FEHBP did not receive a discount equivalent to the adjustment the Plan gave to a similarly sized subscriber group (SSSG). Application of the SSSG's discount to the FEHBP's audited rates shows that the FEHBP was overcharged \$79,992 for 2008 and \$228,417 for 2009. This report also details a procedural finding related to the Plan's claims data submission.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$17,183 for lost investment income, calculated through June 30, 2010, on the defective pricing finding.

The Plan agreed with these findings and remitted a check for \$325,592 (\$79,992 + \$228,417 + \$17,183).

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## I. INTRODUCTION AND BACKGROUND

### Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at OSF HealthPlans, Inc. (Plan) in Peoria, Illinois. The audit covered contract years 2005, 2006, 2008, and 2009. The audit was conducted pursuant to the provisions of Contract CS 2829-A; 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.

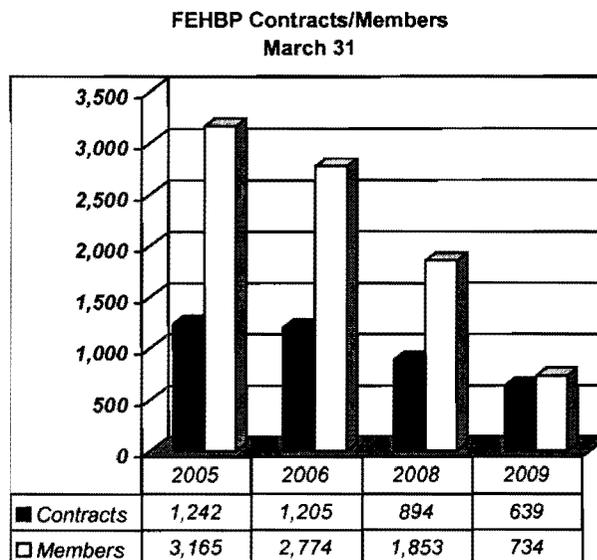
### Background

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 has participated in the FEHBP since 1998 and provides health benefits to FEHBP members in Central Illinois and Central-Northwestern Illinois. The last audit conducted by our office was a rate reconciliation audit for contract year 2007. We agreed with the Plan's 2007 proposed reconciled rates.

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

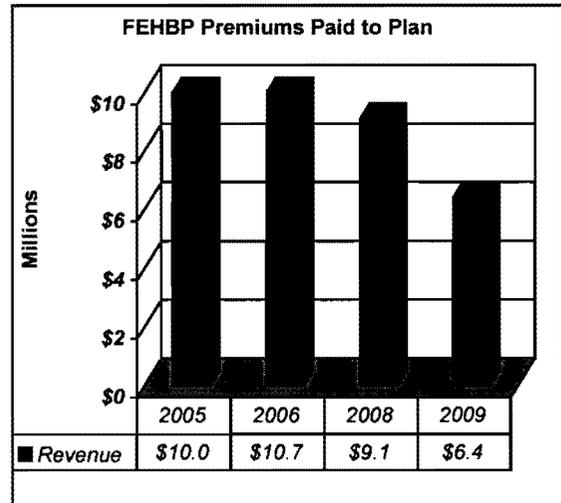
### Objectives

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, 2006, 2008, and 2009. For these contract years, the FEHBP paid approximately \$36.2 million in premiums to the Plan. 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
- 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 was conducted as a desk audit in our Washington, D.C. offices during October 2009.

### **Methodology**

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete, and valid. 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 RECOMMENDATIONS**

#### **A. Premium Rates**

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

**\$308,409**

The Certificates of Accurate Pricing the Plan signed for contract years 2008 and 2009 were defective. In accordance with federal regulations, the FEHBP is therefore due a price reduction for those years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$308,409 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's (OPM) rules and regulations for contract years 2005 and 2006.

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.

##### **2008**

The Plan selected [REDACTED] and [REDACTED] as the SSSGs in 2008. We agree with these selections. Our analysis of the SSSG rates showed that [REDACTED] and [REDACTED] received discounts of [REDACTED] percent and [REDACTED] percent, respectively. The Plan did not include either discount in the FEHBP's rate development. In developing the audited rates for the FEHBP, we applied the [REDACTED] percent discount granted to [REDACTED]. A comparison of our audited rates to the proposed rates showed that the FEHBP was overcharged \$79,992 in 2008 (see Exhibit B).

##### **2009**

The Plan selected [REDACTED] and [REDACTED] as the SSSGs in 2009. We agree with these selections. Our analysis of the SSSG rates showed that [REDACTED] received a discount of [REDACTED] percent. [REDACTED] did not receive a discount. The Plan included a discount of [REDACTED] in the FEHBP rate development. In developing the audited rates for the FEHBP, we applied the [REDACTED] percent discount granted to [REDACTED]. A comparison of our audited rates to the proposed rates showed that the FEHBP was overcharged \$228,417 in 2009 (see Exhibit B).

### **Recommendation 1**

After receiving the draft report, the Plan returned \$308,409 to the FEHBP for defective pricing in contract years 2008 and 2009. Since we verified that the Plan returned \$308,409 to the FEHBP, no further action is required.

### **2. Lost Investment Income**

**\$17,183**

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 2008 and 2009. We determined that the FEHBP is due \$17,183 for lost investment income, calculated through June 30, 2010 (see Exhibit C).

FEHBP 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**

After receiving the draft report, the Plan returned \$17,183 to the FEHBP for lost investment income on the defective pricing findings in contract years 2008 and 2009. Since we verified that the Plan returned \$17,183 to the FEHBP, no further action is required.

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

The Plan agrees with the defective pricing finding and the calculated lost investment income and submitted payment in full in the amount of \$325,592 (\$79,992 + \$288,417 + \$17,183).

### **B. Claims Review**

In FEHBP Program Carrier Letter 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 the FEHBP claims data for contract year 2009. We ran queries on the claims data that relate to hospital, physician, out-of-area, prescription drugs and injectable drugs, large claims,

coordination of benefits (COB), bundling of claims, and non-covered benefits according to the FEHBP benefit brochures.

**Medical COB Review**

The Plan did not provide all the necessary documentation to support all of the claims selected for the medical COB review. In order to complete the COB review, we need documentation to support 8 medical claims, totaling \$61,117.42 in payments, of the 15 we selected for review. This support is needed to verify that the Plan coordinated payment of the claims with other insurance providers (i.e., Medicare). These eight claims were included in the total claims cost used to develop the FEHBP rates. Since the Plan did not support the claims, we removed \$61,117.42 in claims from the 2009 rate development to determine the effect on the 2009 premium rates. The comparison showed that removing the claims would produce an immaterial change. Therefore, we are reporting this issue as a procedural finding.

**Recommendation 3**

We recommend that the contracting officer require the Plan to submit the eight medical claims, totaling \$61,117.42 in payments, to verify that coordination was done correctly.

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

The Plan did not comment on this finding.

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

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

██████████ Auditor-In-Charge

██████████ Lead Auditor

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██████████ Chief

██████████ Senior Team Leader

**OSF HealthPlans, Inc.  
Summary of Questioned Costs**

**Defective Pricing Questioned Costs:**

Contract Year 2008	\$79,992
Contract Year 2009	<u>\$228,417</u>

**Total Defective Pricing Questioned Costs** **\$308,409**

**Lost Investment Income** **\$17,183**

**Total Questioned Costs** **\$325,592**

**OSF HealthPlans, Inc.  
Defective Pricing Questioned Costs**

**2008 Contract Year**

**High Option**

	<u>Single</u>	<u>Family</u>	
Plan's Proposed Rates	[REDACTED]		
Audited Rates	[REDACTED]		
Biweekly Overcharge	[REDACTED]		
To Annualize:			
x March 31, 2008 Headcount	[REDACTED]		
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]		
Amount Due FEHBP in 2008			\$76,518

**High Deductible Health Plan**

	<u>Single</u>	<u>Family</u>	
Plan's Proposed Rates	[REDACTED]		
Audited Rates	[REDACTED]		
Biweekly Overcharge	[REDACTED]		
To Annualize:			
x March 31, 2008 Headcount	[REDACTED]		
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]		
Amount Due FEHBP in 2008			\$3,474

**Total 2008 Defective Pricing Questioned Costs** \$79,992

**2009 Contract Year**

**High Option**

	<u>Single</u>	<u>Family</u>	
Plan's Proposed Rates	[REDACTED]		
Audited Rates	[REDACTED]		
Biweekly Overcharge	[REDACTED]		
To Annualize:			
x March 31, 2009 Headcount	[REDACTED]		
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]		
Amount Due Plan in 2009			\$228,417

**Total 2009 Defective Pricing Questioned Costs** \$228,417

**Total Defective Pricing Questioned Costs** \$308,409

**OSF HealthPlans, Inc.**  
**Lost Investment Income**

Year	2008	2009	2010	Total
<b>Audit Findings:</b>				
Defective Pricing	\$79,992	\$228,417	0	\$308,409
<hr/>				
Totals (per year):	\$79,992	\$228,417	\$0	\$308,409
Cumulative Totals:	\$79,992	\$308,409	\$308,409	\$308,409
Average Annual Interest Rate:	4.9375%	5.2500%	3.2500%	
Interest on Prior Years Findings:	\$0	\$4,200	\$5,012	\$9,212
Current Years Interest:	\$1,975	\$5,996	\$0	\$7,971
<hr/>				
Total Cumulative Interest June 30, 2010	\$1,975	\$10,196	\$5,012	<b>\$17,183</b>

This document is submitted by Humana Inc. ("Humana"), the acquirer of OSF HealthPlans, Inc. ("OSF") in May 2008, and responds to the Draft Audit Report dated March 19, 2010 (the "Audit Report") issued by the Office of Inspector General of the Office of Personnel Management ("OPM") regarding the OSF HealthPlans, Inc. FEHBP Contract Number 2829-A – Rate Code 9F for contract years 2005-2006 and 2008-2009.

**REMOVED BY OIG  
NOT RELEVANT TO FINAL REPORT**

Humana concurs with the defective pricing charges in entirety for contract years 2008 and 2009 totaling \$308,409 and has enclosed a check for this amount plus \$17,183 in lost investment income through 6/30/2010 for a total repayment of \$325,592 (see Exhibit 1).

**REMOVED BY OIG  
NOT RELEVANT TO FINAL REPORT**

**Exhibit 1**

RESPONSE TO FINAL AUDIT REPORT -  
CHARGES CONCESSION INCLUDING LOST INVESTMENT INCOME THROUGH 6/30/2010  
OSF HealthPlans, Inc.

Year	2006	2007	2008	2009	2010	Total
Audit Findings						
Defective pricing	0	0	79,992	228,417	0	308,409
Totals (per year):	0	0	79,992	228,417	0	308,409
Cumulative total:	0	0	79,992	308,409	308,409	308,409
Avg Interest Rate (per year):	5.4375%	5.50%	4.938%	5.25%	3.25%	
Interest PY findings:	0	0	0	4,200	5,012	9,212
Current Year findings:	0	0	1,975	5,996	0	7,971
Total Cumulative Interest:	0	0	1,975	10,196	5,012	17,183
<b>Total Audit Charges Concession &amp; Interest</b>						<b>325,592</b>