



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 United Healthcare of the Midwest, Inc.

Report No. 1C-B9-00-10-042

Date: January 4, 2011

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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
United Healthcare of the Midwest, Inc.
Contract Number CS 2906 - Plan Code B9
Hartford, Connecticut**

Report No. 1C-B9-00-10-042

Date: 1/4/2011

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

Michael R. Esser
Assistant Inspector General
for Audits



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
United Healthcare of the Midwest, Inc.
Contract Number CS 2906 - Plan Code B9
Hartford, Connecticut**

Report No. 1C-B9-00-10-042

Date: 1/4/2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at United Healthcare of the Midwest, Inc. (Plan). The audit covered contract years 2006 through 2009 and was conducted at the Plan's office in Hartford, Connecticut.

This report questions \$281,542 for inappropriate health benefit charges in contract years 2008 and 2009, including \$22,415 due the FEHBP for lost investment income, calculated through December 31, 2010. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2006 and 2007.

For contract years 2008 and 2009, we determined that the FEHBP's rates were overstated by \$259,127 due to defective pricing. For contract year 2008, we determined that the FEHBP's rates were overstated by \$144,347 because the Plan discounted the rates given to one similarly sized subscriber group, [REDACTED] by [REDACTED] but only applied a [REDACTED] percent discount to the FEHBP's rates.

In contract year 2009, we determined that the FEHBP's rates were overstated by \$114,780 because the Plan again discounted the rates given to [REDACTED] by [REDACTED] but only applied a [REDACTED] percent discount to the FEHBP's rates.

Consistent with the FEHBP regulations and the contract, the FEHBP is due \$22,415 for lost investment income, calculated through December 31, 2010, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning January 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

In addition, we could not determine the Plan's compliance with FEHBP debarment program requirements since the Plan was revising its debarment program and had not implemented the new program.

Further, the Plan's data submissions in response to Carrier Letters 2007-09 and 2008-09 were incomplete since the submissions did not include all the required data fields.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at United Healthcare of the Midwest, Inc. (Plan). The audit covered contract years 2006 through 2009 and was conducted at the Plan's office in Hartford, Connecticut. The audit was conducted pursuant to the provisions of Contract CS 2906; 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.

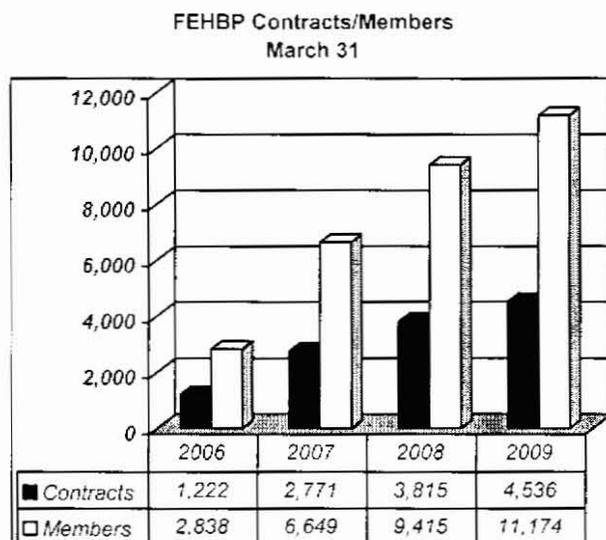
Background

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 Healthcare and Insurance 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 2005 and provides health benefits to FEHBP members in Kansas City, Missouri, and St. Louis, Missouri. This is the first audit completed by our office.

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 the preparation of this report and are included, as appropriate, as the Appendix.

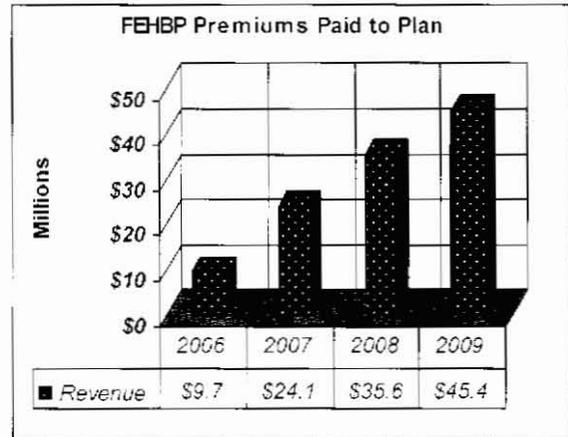
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2006 through 2009. For these years, the FEHBP paid approximately \$114.8 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 Hartford, Connecticut, during April 2010. 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. 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 (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

A. Premium Rate Review

1. Defective Pricing

\$259,127

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 adjustment for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$259,127 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract years 2006 and 2007.

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, 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

We agree with the Plan's selection of [REDACTED] as the SSSGs for contract year 2008. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount. The Plan applied a [REDACTED] percent discount to the FEHBP rates. [REDACTED] received a lower discount.

The Plan uses a pricing factor in its rate development model that accounts for what it calls "slice" business. Slice business is a term used in the managed care industry to refer to a group client that offers multiple insurance carriers (i.e., the Plan is not the sole carrier). As such, when a group offers other competitors to its employees, the Plan adds a [REDACTED] slice factor to the group's pooling charge calculation. In the event that the Plan is the sole offering, a slice factor of [REDACTED] is used. We determined that [REDACTED] offered multiple insurance carriers to its employees; however, the Plan failed to apply a [REDACTED] slice factor in its rating of the group. Due to this error, we determined that [REDACTED] received a [REDACTED] percent discount.

Accordingly, we redeveloped the FEHBP rates by applying the [REDACTED] percent discount. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$144,347 in 2008 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan acknowledges that it inadvertently failed to apply the [REDACTED] slice business factor to [REDACTED] 2008 rates and, as a result, the FEHBP is entitled to a larger discount than what the Plan applied to the FEHBP's 2008 rates. However, due to rounding differences, the Plan's calculations show that the total additional amount due the FEHBP for 2008 is \$144,086.

2009

We agree with the Plan's selection of [REDACTED] as the SSSGs for contract year 2009. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount. The Plan applied a [REDACTED] percent discount to the FEHBP rates. [REDACTED] did not receive a discount.

As in 2008, we determined that [REDACTED] offered multiple insurance carriers to its employees; however, the Plan failed to apply a [REDACTED] slice factor in its rating of the group. Due to this error, we determined that [REDACTED] received a [REDACTED] percent discount.

Accordingly, we redeveloped the FEHBP rates by applying the [REDACTED] percent discount. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$114,780 in 2009 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan acknowledges that it inadvertently failed to apply the [REDACTED] slice business factor to [REDACTED]'s 2009 rates and, as a result, the FEHBP is entitled to a larger discount than what the Plan applied to the FEHBP's 2009 rates. However, due to rounding differences, the Plan's calculations show that the total additional amount due the FEHBP for 2009 is \$114,851.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$259,127 to the FEHBP for defective pricing in contract years 2008 and 2009.

2. Lost Investment Income

\$22,415

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 \$22,415 for lost investment income, calculated through December 31, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning January 1, 2011, until all defective pricing finding amounts have been returned to the FEHBP.

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.

Plan's Comments (See Appendix):

The Plan agrees that lost investment income, based on the reduced finding amount, is due the FEHBP in connection with contract years 2008 and 2009.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$22,415 to the FEHBP for lost investment income for the period January 1, 2008 through December 31, 2010. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning January 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

B. Debarment Review

Compliance with Debarment Guidelines

During our audit, we were unable to review the Plan's debarment program. In March 2004, the OIG issued to carriers the Guidelines for Implementation of FEHBP Debarment and Suspension Orders. It provides FEHBP carriers comprehensive instructions on all aspects of debarment program responsibilities. These guidelines also state the OIG will conduct reviews of carrier debarment efforts during its regular audits of FEHBP plans.

As such, we asked to interview Plan officials and requested program documentation as part of our review. The Plan stated its debarment program was being revised and the interview and documentation would be available when the new program was implemented. As a result, we are unable to determine whether the Plan is compliant with the FEHBP debarment program requirements.

Plan's Comments (See Appendix):

The Plan did not address this finding.

Recommendation 3

We recommend the contracting officer require the Plan to provide quarterly updates on its debarment program and to provide a timeline for program completion. The Plan's debarment program will be reviewed during future audits scheduled by the OIG.

C. Claims Review

Compliance with Data Submission Requirements

The Plan did not comply with FEHBP Carrier Letters 2007-09 and 2008-09 (Carrier Letters) related to required data fields in its claims data submission to the OIG. The Carrier Letters require certain carriers to provide their FEHBP claims data to the OIG annually. The Carrier Letters give specific technical instructions for carriers to follow.

The FEHBP claims data submissions to the OIG in 2007 and 2008 (to support the 2008 and 2009 rates) were incomplete as they did not include all of the required data fields. Failure to fully comply with the Carrier Letters limits our ability to meet the audit objective and increases the risk that material weaknesses in the Plan's claim processing system will remain undetected.

Plan's Comments (See Appendix):

The Plan did not address this finding.

Recommendation 4

We recommend that the contracting officer require the Plan to resubmit its 2007 and 2008 FEHBP claims data (to support the 2008 and 2009 rates) with all of the data fields as required by the Carrier Letters. We also recommend that the Plan implement measures to ensure all future claim data submissions to OIG contain all of the required fields.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[REDACTED] Auditor-In-Charge

[REDACTED] Lead Auditor

[REDACTED] Auditor

[REDACTED] Chief

United Healthcare of the Midwest, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:

Contract Year 2008	\$144,347
Contract Year 2009	<u>\$114,780</u>

Total Defective Pricing Questioned Costs: \$259,127

Lost Investment Income: \$22,415

Total Questioned Costs: **\$281,542**

**United Healthcare of the Midwest, Inc.
Defective Pricing Questioned Costs**

2008 Contract Year

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
 Total 2008 Defective Pricing Questioned Costs			\$144,347

2009 Contract Year

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/09 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
 Total 2009 Defective Pricing Questioned Costs			\$114,780
 Total Defective Pricing Questioned Costs			<u><u>\$259,127</u></u>

**United Healthcare of the Midwest, Inc.
Lost Investment Income**

Year	2008	2009	2010	Total
Audit Findings:				
1. Defective Pricing	\$144,347	\$114,780	\$0	\$259,127
<hr/>				
Totals (per year):	\$144,347	\$114,780	\$0	\$259,127
Cumulative Totals:	\$144,347	\$259,127	\$259,127	\$259,127
Avg. Interest Rate (per year):	4.9375%	5.25%	3.1875%	
Interest on Prior Years Findings:	\$0	\$7,578	\$8,260	\$15,838
Current Years Interest	\$3,564	\$3,013	\$0	\$6,577
<hr/>				
Total Cumulative Interest Calculated Through December 31, 2010:	\$3,564	\$10,591	\$8,260	\$22,415

UnitedHealthcare

October 26, 2010

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

**Re: United Healthcare of the Midwest, Inc.
Draft Audit Report No. 1C-B9-00-10-042**

Dear [REDACTED]

This letter and accompanying exhibits respond to the above-referenced draft audit report (the "Draft Report") on the Federal Employees Health Benefits Program ("FEHBP") operations at United Healthcare of the Midwest, Inc. (the "Plan") for contract years 2006 through 2009.

The Draft Report questions \$449,777 for inappropriate health benefit charges (exclusive of lost investment income) in connection with contract years 2008 and 2009. According to the Draft Report, the questioned costs are due to the Plan not applying the same level of discount to the FEHBP that was applied to [REDACTED] a similarly sized subscriber group ("SSSG"). Specifically, the Draft Report indicates that [REDACTED] received a larger discount than originally calculated by the Plan as a result of the Plan not applying a [REDACTED] "slice" business factor to [REDACTED] 2008 and 2009 rates. A [REDACTED] slice business factor was applied to groups for which the Plan was not the sole health benefits carrier. According to the Draft Report, [REDACTED] offered other health benefits carriers in addition to the Plan.

The Plan acknowledges that it inadvertently failed to apply the [REDACTED] slice business factor to [REDACTED] 2008 and 2009 rates and, as a result, the FEHBP is entitled to a larger discount than what the Plan applied to the FEHBP's 2008 and 2009 rates. However, the Plan disagrees with the Draft Report's recommendation that the FEHBP's rates should receive an additional discount amount of \$449,777 as a result of this rating error. Rather, according to the Plan's calculations, the total additional discount amount due the FEHBP is \$258,937.

[REDACTED]
October 26, 2010

Page 2 of 2

Attached to this response as Exhibit 1 is the Plan's recalculation of [REDACTED] 2008 rates applying the [REDACTED] slice business factor. As indicated on page 4 of Exhibit 1, [REDACTED] received a [REDACTED]% discount as compared to the [REDACTED]% discount calculated in the Draft Report. Also included in Exhibit 1 is the Plan's recalculation of the FEHBP's 2008 using the [REDACTED]% SSSG discount. As indicated on the first page of the Exhibit, the additional discount amount to be applied to the FEHBP's 2008 rates is \$144,086 and not the \$322,144 calculated in the Draft Report.

Attached as Exhibit 2 to this response is the Plan's recalculation of [REDACTED] 2009 rates applying the [REDACTED] slice business factor. As indicated on page 4 of Exhibit 2, [REDACTED] received a [REDACTED] discount. Also included in Exhibit 1 is the Plan's recalculation of the FEHBP's 2009 using the [REDACTED] SSSG discount. As indicated on the first page of Exhibit 2, the additional discount amount to be applied to the FEHBP's 2009 rates is \$114,851 and not the \$127,633 calculated in the Draft Report.

Based on the foregoing, the Plan agrees that an additional discount of \$258,937 plus lost investment income calculated on this reduced amount is due the FEHBP in connection with contract years 2008 and 2009.

Please contact me if you have any questions or require additional information.

Sincerely,

[REDACTED]
Director

Enclosures