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

Final Audit Report

AUDIT OF
AETNA HEALTH OF UTAH INC.
SANDY, UTAH

Report Number 1D-9K-00-17-004
December 13, 2017

EXECUTIVE SUMMARY

Audit of Aetna Health of Utah Inc.

Report No. 1D-9K-00-17-004 **December 13, 2017**

Why did we conduct the audit?

We conducted this audit to obtain reasonable assurance that Aetna Health of Utah Inc. (Plan), dba Altius Health Plan, is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. Specifically, our objective was to determine if the Plan handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

What did we audit?

Our audit covered the Plan's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016, for the Plan's experience-rated health maintenance organization plan. Specifically, we reviewed the Plan's letter of credit account drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, interest income transactions, and dedicated FEHBP investment account activity and balances. Due to concerns with the Plan's working capital funds, we expanded our scope to also include these funds from July 1, 2016, through March 31, 2017.

Michael R. Esser
Assistant Inspector General for Audits

What did we find?

We questioned $2,420,230 in cash management activities. Specifically, we determined that the Plan held an excess working capital deposit of $2,419,599 in the dedicated FEHBP investment account as of June 30, 2016. We also determined that the Plan held interest income of $631 earned on FEHBP funds in the dedicated investment account that had not been returned to the FEHBP. During our pre-audit phase, the Plan self-disclosed these audit findings.

The Plan agreed with all of these questioned amounts. As part of our audit, we verified that the Plan returned these questioned amounts to the FEHBP.

ABBREVIATIONS

CFR	**Code of Federal Regulations**
Contract	**CS 2839**
dba	**doing business as**
EFTs	**Electronic Funds Transfers**
FEHB	**Federal Employees Health Benefits**
FEHBP	**Federal Employees Health Benefits Program**
Guidelines	**Letter of Credit System Guidelines**
HMO	**Health Maintenance Organization**
LOCA	**Letter of Credit Account**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
Plan	**Aetna Health of Utah Inc.**
WC	**Working Capital**

TABLE OF CONTENTS

I. BACKGROUND

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 Aetna Health of Utah Inc. (Plan), dba Altius Health Plan. The Plan is located in Sandy, Utah.

The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

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.

Prior to 2016, the Plan was an experience-rated health maintenance organization (HMO) plan that provided health benefits to federal enrollees and their families.[1] Enrollment for this experience-rated HMO plan was open to all federal employees and annuitants in the Plan's service area, which included Utah and certain counties in Idaho and Wyoming. In 2016, the Plan discontinued as an experience-rated HMO plan and changed to a community-rated HMO plan. The experience-rated HMO plan is currently in the run-out phase (since January 1, 2016).[2]

The Plan's contract (CS 2839) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that 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 that an accounting of program funds be

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

[2] After discontinuing the experience-rated HMO plan, the Plan is required to fulfill all of the requirements in the FEHBP contract during a run-out phase, which usually takes two or more years. For example, the Plan continues to process, pay, and/or adjust health benefit claims for services that were incurred in contract years 2015 and prior. The Plan also continues to provide customer service, process claim overpayment recoveries and pharmacy drug rebates, and account for FEHBP funds.

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.

All findings from our prior audit of the Plan (Report No. 1D-9K-00-09-026, dated June 28, 2010), covering contract years 2004 through 2008, have been satisfactorily resolved.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether the Plan handled FEHBP funds in accordance with the contract and 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 objective.

The audit covered the Plan's cash management activities and practices related to FEHBP funds from 2014 through June 30, 2016, for the Plan's experience-rated HMO plan. Specifically, we reviewed the Plan's letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, treasury offsets, interest income transactions, and dedicated FEHBP investment account activity and balances to determine if the Plan handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP. Due to concerns with the Plan's working capital funds, we expanded our audit scope to also include these funds from July 1, 2016, through March 31, 2017.

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 operations. 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.

We also conducted tests to determine whether the Plan had complied with the contract provisions, the applicable procurement regulations (i.e., Federal Acquisition Regulations and Federal Employees Health Benefits Acquisition Regulations, as appropriate), and the laws and regulations governing the FEHBP that relate to cash management of FEHBP funds. The results of our tests indicate that, with respect to the items tested, the Plan did not fully comply with all provisions of the contract relative to cash management of FEHBP funds. 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 information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objective.

The audit was performed at our office in Jacksonville, Florida from February 1, 2017, through May 18, 2017. During our fieldwork phase, we also made a short on-site visit to the Plan from March 28, 2017, through March 30, 2017. Throughout the audit process, the Plan did a good job providing complete and timely responses to our requests for supporting documentation. We greatly appreciated the Plan's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

To test the Plan's compliance with contract provisions relative to cash management activities, we selected and reviewed a judgmental sample of 50 LOCA drawdown amounts, totaling $23,192,415 (from a universe of [redacted] LOCA drawdowns, totaling $[redacted], during the period 2014 through June 30, 2016), for the purpose of determining if the Plan's LOCA drawdowns were appropriate and adequately supported. Our sample included a week of LOCA drawdowns (representing 5 LOCA drawdown amounts) judgmentally selected from each of the 10 quarters in the audit scope. The sample results were not projected to the universe of LOCA drawdowns. We also reviewed working capital calculations, adjustments, and/or balances from 2014 through March 31, 2017; treasury offsets and interest income transactions from 2014 through June 30, 2016; and the Plan's dedicated FEHBP investment account activity during the scope and the balance as of June 30, 2016.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. <u>Excess Working Capital Deposit</u> <u>$2,419,599</u>

As of June 30, 2016, the Plan held a working capital (WC) deposit of $2,419,599 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments. During our pre-audit phase, the Plan self-disclosed that excess WC funds were inadvertently held by the Plan. As a result of our audit, the Plan returned $2,419,599 to the FEHBP for the excess WC deposit.

OPM's "Letter of Credit System Guidelines" (Guidelines), dated May 2009, state: "Carriers should maintain a working capital balance equivalent to an average of 2 days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital fund on a monthly basis and adjust if necessary on a quarterly basis. The interest earned on the working capital funds must be credited to the FEHBP at least on a monthly basis. The working capital is not required but strongly recommended." Also, based on the Guidelines, the Carrier's WC calculation <u>must exclude electronic fund transfers</u> (EFTs).

In addition, based on the regulations governing the financing of Federal programs by the letter of credit method, as established in 31 CFR 205 (Treasury Department Circular No. 10750), EFTs should not be included in the WC calculation. These instructions are established under the provisions of Treasury Department Circular No. 1083 (Regulations Governing the Utilization of the U.S. TFCS), 5 CFR Part 890, and 48 CFR Chapter 16.

Based on industry practice (e.g., other FEHBP experience-rated Carriers), the WC deposit should be recalculated on a regular basis to determine if the amount currently maintained is adequate to meet the Plan's daily cash needs for FEHBP claim payments. If the WC deposit is not adequate (either over or underfunded), the Plan should make an appropriate adjustment.

Regarding reportable monetary findings, Contract CS 2839 , Part III, Section 3.16 (a), states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected . . . prior to audit notification."

We noted that the Plan made <u>no</u> adjustments to the WC deposit during the audit scope, even when the health benefit payments significantly decreased in 2016. When reviewing the Plan's WC calculations, we also determined that the Plan <u>inappropriately included EFTs</u> in the calculations. As of June 30, 2016, the Plan held a WC deposit amount of $[redacted] in the dedicated FEHBP investment account.[3]

The Plan held an excess WC deposit of $2,419,599 in the dedicated FEHBP investment account as of June 30, 2016.

During our fieldwork phase, the Plan recalculated the WC deposit again (excluding EFTs) and determined that, as of June 30, 2016, the WC deposit should only have been $[redacted]. We reviewed and accepted the Plan's revised calculation for the WC deposit. Therefore, we determined that, as of June 30, 2016, the Plan held a WC deposit with an excess amount of $2,419,599 ($[redacted] minus $[redacted]) over the amount actually needed to meet the Plan's daily cash needs for FEHBP claim payments. Since the Plan maintained these excess WC funds in the dedicated FEHBP investment account, lost investment income is not applicable for this finding.

Plan's Response:

The Plan agrees with this finding and states that the excess WC funds were returned to the FEHBP.

OIG Comment:

As part of the audit, we verified that the Plan returned the questioned excess WC deposit of $2,419,599 to the FEHBP. We also verified that the Plan used the remaining WC funds of $[redacted] to cover claim payments during the run-out phase of the experience-rated HMO plan (instead of withdrawing funds from the LOCA). As of March 31, 2017, we noted that the Plan no longer held a WC deposit.

Recommendation 1

We recommend that the contracting officer require the Plan to return $2,419,599 to the FEHBP for the questioned excess WC deposit. However, since we verified that the Plan returned $2,419,599 to the FEHBP for the excess WC deposit, no further action is required for this questioned amount.

[3] In August 2016 (after receiving our audit notification letter and Audit Information Request, dated August 1, 2016), the Plan recalculated the WC deposit (with EFTs in the calculation) and determined that, as of June 30, 2016, the WC deposit amount should only have been $[redacted]. In response to our Audit Information Request (during our pre-audit phase), the Plan self-disclosed that excess WC funds were inadvertently held by the Plan.

B. Interest Income $631

Our audit determined that the Plan had not returned interest income of $631 to the FEHBP. This interest income was earned on funds held in the dedicated FEHBP investment account from January 2013 through July 2016. During our pre-audit phase, the Plan self-disclosed this audit finding. As a result of our audit, the Plan returned this interest income of $631 to the FEHBP on August 10, 2016.

48 CFR 1652.215-71 (a) states, "The Carrier shall invest and reinvest all FEHBP funds on hand that are in excess of the funds needed to promptly discharge the obligations incurred under this contract." 48 CFR 1652.215-71 (b) states, "All investment income earned on FEHB funds shall be credited to the Special Reserve on behalf of the FEHBP."

Regarding reportable monetary findings, Contract CS 2839 , Part III, Section 3.16 (a), states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected . . . prior to audit notification."

In response to our Audit Information Request, the Plan self-disclosed that interest income of $631 earned on funds held in the dedicated FEHBP investment account from January 2013 through July 2016 had inadvertently not been returned to the FEHBP. We reviewed and accepted the Plan's interest income analysis. Since the Plan held the interest income in the FEHBP investment account, lost investment income is not applicable for this audit finding.

Plan's Response:

The Plan agrees with this finding and states that the questioned interest income was returned to the FEHBP.

OIG Comment:

As part of the audit, we verified that the Plan returned this questioned interest income to the FEHBP on August 10, 2016 (after receiving our audit notification, dated August 1, 2016).

Recommendation 2

We recommend that the contracting officer require the Plan to return $631 to the FEHBP for the questioned interest income. However, since we verified that the Plan returned $631 to the FEHBP for the questioned interest income, no further action is required for this amount.

APPENDIX

15400 Calhoun Drive, Suite 300
Rockville, MD 20855
Attn.: [redacted]

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

RE: OPM OIG DRAFT AUDIT REPORT No. 1D-9K-00-17-004
AUDIT OF AETNA HEALTH PLAN OF UTAH INC. d/b/a ALTIUS HEALTH PLAN

Dear [redacted]:

Attached please find the response of Aetna management to U.S. Office of Personnel Management Office of Inspector General Draft Audit Report No. 1D-9K-00-17-004, Audit of Aetna Health Plan of Utah Inc. d/b/a Altius Health Plan. Aetna looks forward to discussing the contents of this response at your convenience, and to this audit's prompt and mutually satisfactory resolution. Please contact me if you have any questions or require additional information regarding this response.

Sincerely,

[redacted]
Senior Director, Federal Government Relations
Aetna Federal Plans

Enclosure

aetna

Altius Management Response to OPM OIG Draft Audit Report No. 17-044

July 14, 2017

A. CASH MANAGEMENT

1. Excess Working Capital Deposit $2,419,599

Deleted by the Office of the Inspector General – Not Relevant to the Final Report

Recommendation 1

We recommend that the contracting officer require the Plan to return $2,419,599 to the FEHBP for the questioned excess WC deposit. However, since we verified that the Plan returned $2,419,599 to the FEHBP for the excess WC deposit, no further action is required for this questioned amount.

Altius Response: Altius concurs with Recommendation 1 of the Draft Report, and as indicated therein previously has taken the appropriate corrective action to return the excess funds maintained in the Plan's working capital account to the FEHBP.[1] Accordingly, as stated in that Recommendation 1 no further action regarding that proposed audit finding is warranted.

[1] Though not material to this Response, it nonetheless bears noting – as was pointed out to the OIG auditors during the field work phase of this audit – that had Altius strictly followed the "working capital calculation" formula for recalculating and adjusting the Plan's working capital account balance in OPM's LOCA Guidelines, it would have resulted in the Plan frequently being in the situation of having insufficient funds in that account to satisfy its FEHBP claims payment obligations.

2. **Interest Income** **$631**

Deleted by the Office of the Inspector General – Not Relevant to the Final Report

Recommendation 2

We recommend that the contracting officer require the Plan to return $631 to the FEHBP for the questioned interest income. However, since we verified that the Plan returned $631 to the FEHBP for the questioned interest income, no further action is required for this questioned amount.

Altius Response: Altius concurs with Recommendation 2 of the Draft Report, and as indicated therein previously has taken the appropriate corrective action to return the questioned interest income to the FEHBP. Accordingly, as stated in that Recommendation 2 no further action regarding that proposed audit finding is warranted.

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