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 Advantage Health Solutions, Inc.

Report No. 1C-6Y-00-09-004

Date: June 24, 2009

--CAUTION--

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
Advantage Health Solutions, Inc.
Contract Number CS 2862 - Plan Code 6Y
Indianapolis, Indiana

Report No. 1C-6Y-00-09-004 **Date:** June 24, 2009

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
Advantage Health Solutions, Inc.
Contract Number CS 2862 - Plan Code 6Y
Indianapolis, Indiana

Report No. 1C-6Y-00-09-004 **Date:** June 24, 2009

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Advantage Health Solutions, Inc. (Plan). The audit covered contract years 2003 through 2008 and was conducted at the Plan's office in Indianapolis, Indiana. This report questions $439,823 for defective pricing in 2005 and 2007, including $57,035 for related lost investment income. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2003, 2004, 2006, and 2008.

We determined that the FEHBP rates were overstated by $196,932 for contract year 2005 because the Plan overstated its capitation increase, charged the FEHBP unsupported benefit loadings, and applied retention to the dental benefit twice.

We determined that the FEHBP rates were overstated by $185,856 for contract year 2007 because the Plan overstated its capitation increase, charged the FEHBP unsupported benefit loadings, applied retention to the dental benefit twice, and did not completely apply a Similarly Sized Subscriber Group discount to the FEHBP's rates.

Consistent with the FEHBP regulations and the contract, the FEHBP is due $57,035 for lost investment income, calculated through April 30, 2009, on the defective pricing findings.

CONTENTS

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Advantage Health Solutions, Inc. (Plan) in Indianapolis, Indiana. The audit covered contract years 2003 through 2008. The audit was conducted pursuant to the provisions of Contract CS 2862; 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

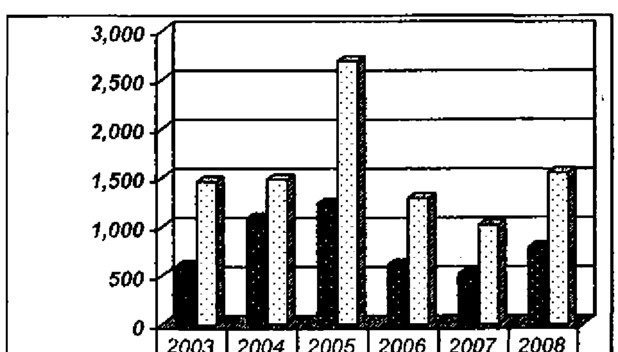
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Center for Retirement and Insurance 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 various health insurance carriers that 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 for March 31 of each contract year audited.

FEHBP Contracts/Members
March 31



	2003	2004	2005	2006	2007	2008
■ Contracts	604	1,085	1,236	614	518	788
□ Members	1,459	1,481	2,688	1,292	1,015	1,552

The Plan has participated in the FEHBP since 2001 and provides health benefits to FEHBP members throughout most of Indiana. The last audit conducted by our office covered contract years 2001 through 2005. As a result of that audit, we found that the Plan's rating of the FEHBP in contract year 2001 was in accordance with the applicable laws, regulations, and OPM rating instructions. In contract year 2002, we found that there were inappropriate health benefit charges to the FEHBP, which were then fully reimbursed by the Plan. However, we found that the Plan could not fully support their rating methodologies in 2003 through 2005; therefore, we did not issue an opinion for these years with the intent to re-audit those years as part of the current audit.

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.

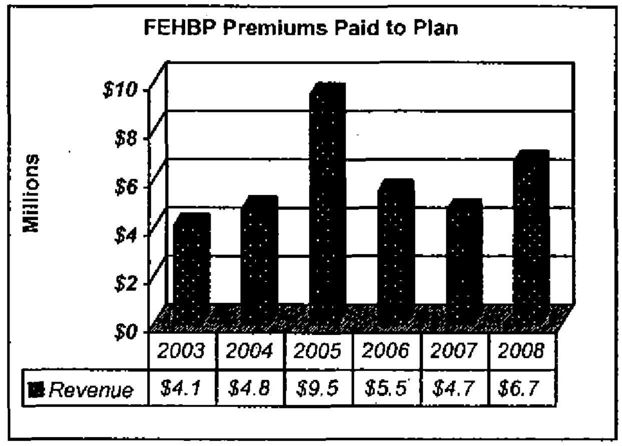
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2003 through 2008. For these contract years, the FEHBP paid approximately $35.3 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 systems 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 an SSSG); 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 performed 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 Indianapolis, Indiana, during November 2008. Additional audit work was completed at our 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 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 **$382,788**

The Certificates of Accurate Pricing the Plan signed for contract years 2005 and 2007 were defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for each year. We applied the defective pricing remedies for the years in question and determined that the FEHBP is entitled to premium adjustments totaling $382,788 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and OPM rating instructions in contract years 2003, 2004, 2006, and 2008.

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 rates that exceeded the 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.

During the scope of our audit, the Plan contracted with physician hospital organization (PHO) providers to deliver covered services to its members. Many of these PHO contracts were capitated, meaning the Plan paid the PHO a fixed per-member-per-month (PMPM) amount for each member selecting a PHO physician. The PHO assumes the risk of incurring medical expenses above the capitation level. The Plan retains a certain percentage of group premiums to cover administrative expenses.

In developing group premium rates, the Plan uses a capitation-based Adjusted Community Rating (ACR) methodology. This methodology compares group-specific capitation expense with actual PHO medical claims expense to determine the required change in the PHO capitation at a group's renewal. However, this <u>required capitation</u> increase/decrease was only used as a negotiating tool with its PHO. A group's actual renewal rate is based on the end results of the Plan's <u>negotiated capitation</u> increase/decrease. This method of setting a group's renewal rate is subjective and arbitrary. In order to determine whether the FEHBP received a market price rate, we used the required capitation increase/decrease as our basis for evaluating each groups' rates in each year of our audit. Further, pharmacy benefits are rated using actual claims expense. Lastly, special benefits, such as family planning, vision, mental health and substance abuse, Healthy Allies, and dental are rated using a flat-fee PMPM capitation.

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] nor [redacted] received a discount.

The Plan originally applied a negotiated capitation increase of [redacted] percent to the FEHBP's current capitation rate. However, we found that the required capitation increase was [redacted] percent. We also found that the $[redacted] PMPM mental health and substance abuse (MHSA) capitation rate used by the Plan should actually have been $[redacted] PMPM. Additionally, the family planning capitation rate of $[redacted] PMPM was not fully supported. We reduced it to the filed rate of $[redacted] PMPM. Finally, we determined that the Plan overcharged the retention portion of the FEHBP dental rate.

We re-developed the FEHBP's rates by correcting the above noted exceptions. A comparison of our audited line 5 rates to the Plan's proposed rates shows that the FEHBP was overcharged $196,932 in 2005 (see Exhibit B).

2007

We agree with the Plan's selection of [redacted] and [redacted] as the SSSGs for contract year 2007. 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.

For [redacted], the Plan originally applied a negotiated capitation increase of [redacted] percent to the current capitation rate. However, we found that the required capitation increase was [redacted] percent. We also found that the $[redacted] PMPM MHSA capitation rate used by the Plan should actually have been $[redacted] PMPM. Additionally, the $[redacted] PMPM family planning capitation rate used by the Plan was unsupported. We reduced it to the actual filed rate of $[redacted] PMPM. These exceptions resulted in [redacted] receiving a [redacted] percent discount.

For the FEHBP, the Plan originally applied a negotiated capitation increase of [redacted] percent to the current capitation rate. However, we found that the required capitation increase was [redacted] percent. We also found that the $[redacted] PMPM MHSA capitation rate used by the Plan should actually have been $[redacted] PMPM. Additionally, the $[redacted] PMPM family planning capitation rate used by the Plan was unsupported. We reduced it to the actual filed rate of $[redacted] PMPM. Finally, we determined that the Plan overcharged the retention portion of the FEHBP dental rate.

We re-developed the FEHBP's rates by correcting the above noted exceptions and applying the [redacted] percent [redacted] discount. A comparison of our audited line 5 rates to the Plan's proposed rates shows that the FEHBP was overcharged $185,856 in 2007 (see Exhibit B).

Recommendation 1

After receiving the draft report, the Plan returned $382,788 to the FEHBP for defective pricing in contract years 2005 and 2007. Since we verified that the Plan returned the total questioned costs to the FEHBP, no further action is required.

2. Lost Investment Income $57,035

In accordance with FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing findings in contract years 2005 and 2007. We determined that the FEHBP is due $57,035 for lost investment income, calculated through April 30, 2009.

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 was 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 $57,035 to the FEHBP for lost investment income, calculated through April 30, 2009. Since we verified that the Plan returned the total lost investment income amount to the FEHBP, no further action is required.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted], Auditor-in-Charge

[redacted], Staff Auditor

[redacted] Staff Auditor

[redacted] Chief

[redacted] Senior Team Leader

Exhibit A

Advantage Health Solutions
Summary of Questioned Costs

Defective Pricing Questioned Costs:	
Contract Year 2005	$196,932
Contract Year 2007	$185,856
Total Defective Pricing Questioned Costs	**$382,788**
Lost Investment Income	**$57,035**
Total Questioned Costs	**$439,823**

Exhibit B

Advantage Health Solutions
Defective Pricing Questioned Costs

2005 Contract Year

	Single	Family	
Plan's Proposed Rates	$[redacted]	$[redacted]	
Audited Rates	$	$	
Biweekly Overcharge			
To Annualize:			
x March 31, 2005 Headcount	[redacted]	[redacted]	
x Pay Periods	26	26	
Subtotal	$51,145	$145,787	
Amount Due FEHBP in 2005			$196,932

2007 Contract Year

	Single	Family	
Plan's Proposed Rates	$[redacted]	$[redacted]	
Audited Rates	$	$	
Biweekly Overcharge			
To Annualize:			
x March 31, 2007 Headcount	[redacted]	[redacted]	
x Pay Periods	26	26	
Subtotal	$62,704	$123,152	
Amount Due FEHBP in 2007			$185,856

Total Defective Pricing Questioned Costs **$382,788**

Exhibit C

Advantage Health Solutions
Lost Investment Income

Year Audit Findings:	2005	2006	2007	2008	4/30/2009	Total
Defective Pricing	**$196,932**	**$0**	**$185,856**	**$0**	**$0**	**$382,788**
Totals (per year):	$196,932	$0	$185,856	$0	$0	$382,788
Cumulative Totals:	$196,932	$196,932	$382,788	$382,788	$382,788	$382,788
Average Annual Interest Rate:	4.375%	5.4375%	5.5000%	4.9375%	5.6250%	
Interest on Prior Years Findings:	$0	$10,708	$10,831	$18,900	$7,177	$47,616
Current Years Interest:	$4,308	$0	$5,111	$0	$0	$9,419
Total Cumulative Interest Through April 30, 2009	$4,308	$10,708	$15,942	$18,900	$7,177	**$57,035**

Appendix

2009 APR 21 PM 2:28

ADVANTAGE
...rising above the service you expect[SM]

April 2, 2009

[redacted]
Chief, Community-Rated Audits Group
U.S. Office of Personnel Management
Office of the Inspector General
1900 E Streets, NW
Room 6400
Washington, D.C. 20415-1100

Dear [redacted]:

ADVANTAGE Health Solutions has received the draft report dated March 3, 2009, detailing the results of FEHBP audit for contract years 2003 through 2008. After reviewing the draft report and the details of the audit findings, ADVANTAGE agrees with the OPM and its findings for contract year 2005 of $196,132 and for contract year 2007 of $185,856. ADVANTAGE is prepared to submit payment to the OPM in the amount of the audit findings for defective pricing in years 2005 and 2007 plus the lost investment income of $49,858.

ADVANTAGE wishes to submit payment promptly, please provide instructions as to where payment should be sent.

Sincerely,

Jennifer A. Ponski

Jennifer Ponski
Chief Financial Officer
ADVANTAGE Health Solutions

cc: [redacted]

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