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 at Dean Health Plan, Inc.

Report No. 1C-WD-00-11-031

Date: March 12, 2012

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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
Dean Health Plan, Inc.
Contract Number CS 1966 - Plan Code WD
Madison, Wisconsin

Report No. 1C-WD-00-11-031 **Date:** March 12, 2012

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
Dean Health Plan, Inc.
Contract Number CS 1966 - Plan Code WD
Madison, Wisconsin

Report No. 1C-WD-00-11-031 **Date:** March 12, 2012

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Dean Health Plan, Inc. (Plan). The audit covered contract years 2007 through 2010 and was conducted at the Plan's office in Madison, Wisconsin.

This report questions $571,189 for inappropriate health benefit charges to the FEHBP in contract year 2010. The questioned amount includes $551,790 for defective pricing and $19,399 due the FEHBP for lost investment income, calculated through September 30, 2011. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2007 through 2009.

For contract year 2010, we determined that the FEHBP rates were overstated by $551,790 due to defective pricing. More specifically, we determined that [redacted] received a [redacted] percent discount. The FEHBP received a [redacted] percent discount. The discounts for both the FEHBP and [redacted] were a result of an arbitrary business adjustment factor. Also, the Plan's supported claims experience was higher than what was originally used in the rate development for [redacted] We applied the difference between the two discounts to the FEHBP 2010 audited line 5 audited rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due $19,399 for lost investment income, calculated through September 30, 2011 on the defective pricing finding.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Dean Health Plan, Inc. (Plan). The audit covered contract years 2007 through 2010. The audit was conducted pursuant to the provisions of Contract CS 1966; 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

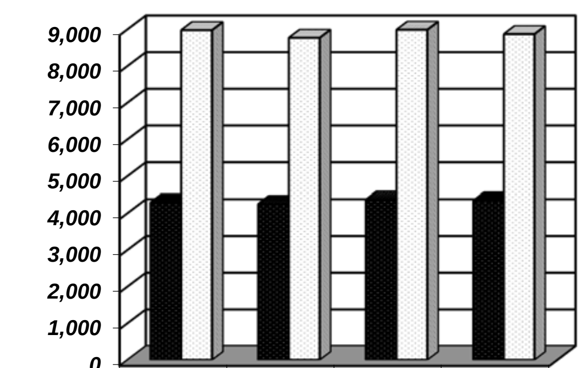
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office.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

FEHBP Contracts/Members
March 31



	2007	2008	2009	2010
Contracts	4,287	4,249	4,364	4,340
Members	8,979	8,771	8,989	8,871

The Plan has participated in the FEHBP since 1985 and provides health benefits to FEHBP members in South Central Wisconsin. The last audit of the Plan conducted by our office was a full scope audit of contract years 2002, 2003, 2004 and 2006. The audit identified $1,549,398 in defective pricing, including $117,670 in lost investment income. All issues identified in the previous audit have been resolved.

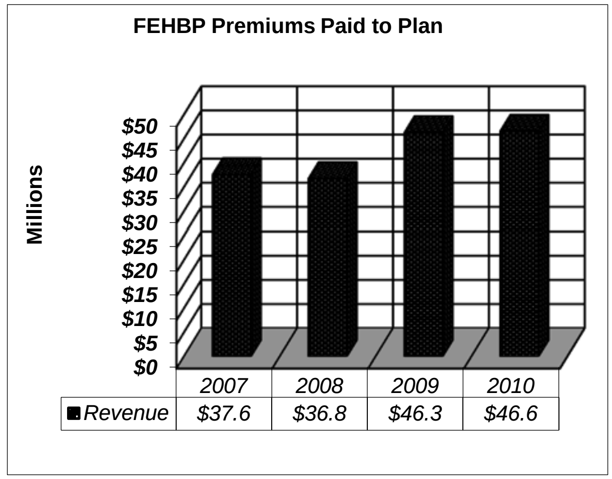
The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan on November 18, 2011 for review and comment. The Plan's comments were considered in the preparation of this report and are included, 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 2007 through 2010. For these contract years, the FEHBP paid approximately $167.3 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 and additional audit work was completed at the Plan's office in Madison, Wisconsin, and our offices located in Washington, D.C., Cranberry Township, Pennsylvania and Jacksonville, Florida.

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, 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 policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

To test the Plan's compliance with the FEHBP health benefit provisions regarding coordination of benefits, we selected and reviewed a judgmental sample of claims for contract years 2007 through 2010. First, we determined the birth year required for Medicare eligibility. Next, we ran queries on the actual experience claim lines for each contract year and isolated the claims by the members' date of birth. Then, we selected claims from the results based upon a dollar value equal to or greater than $1,000.00. Finally, all of the claims labeled as hospital were pulled and any claims listed as physicians were excluded from the sample. As a result, this audit included a 2007 sample of 11 claims from 205,239 claim lines; a 2008 sample of 13 claims from 229,300 claim lines; a 2009 sample of 10 claims from 265,705 claim lines; and a 2010 sample of 9 claims from 271,302 claim lines. The results from the various samples were not projected to the population as a whole.

III. AUDIT FINDINGS AND RECOMMENDATIONS

Premium Rate Review

1. Defective Pricing **$551,790**

The Certificate of Accurate Pricing Dean Health Plan, Inc. (Plan) signed for contract year 2010 was defective. In accordance with federal regulations, the Federal Employees Health Benefits Program (FEHBP) is therefore due a rate reduction for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling $551,790 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM rules and regulations in contract years 2007 through 2009.

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. FEHBP regulations refer to a market price rate in conjunction with the rates offered to a similarly sized subscriber group (SSSG). SSSGs are the Plan's two employer groups closest in subscriber size to the FEHBP. 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.

2010

We agree with the Plan's selection of [redacted] ([redacted] and [redacted] as SSSGs for contract year 2010. Our analysis of the rates charged to the SSSGs shows that [redacted] received a [redacted] percent discount and [redacted] did not receive a discount. The Plan applied a [redacted] discount to the FEHBP.

Included in the Plan's rate development model is a factor entitled business adjustment. During our review, we determined that the business adjustment factor is an unsupported underwriting adjustment used by the Plan to modify a group's rates to obtain the revenue they feel is necessary. There are no objective criteria supporting the factor's development.

In developing our audited rates for contract year 2010, we removed the business adjustment factors for both the FEHBP and the SSSGs in order to develop the true rates each group should have received. As a result, [redacted] (Active and Retirees) received a blended discount of [redacted] percent. The discount granted to [redacted] resulted from the business adjustment factor and a variance in the claims experience used in the Plan's rate development versus the claims experience reports provided by the Plan.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates for an SSSG, we recalculated the FEHBP rates by removing the [redacted] percent discount and applying the [redacted] percent discount given to [redacted] (Active and Retirees). A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged $551,790 in contract year 2010 (see Exhibit B).

Plan's Comments (see Appendix):

The Plan agrees with our defective pricing finding for contract year 2010 and has issued a check for the recommended amount.

Recommendation 1

Since the Plan has returned the $551,790 to the FEHBP for defective pricing in contract year 2010, no further action is recommended.

2. Lost Investment Income **$19,399**

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 in contract year 2010. We determined that the FEHBP is due $19,399 for lost investment income, calculated through September 30, 2011 (see Exhibit C).

Federal Employees Health Benefits Acquisition Regulation 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 with our lost investment income finding for contract year 2010 and has issued a check for the recommended amount.

Recommendation 2

Since the Plan has returned the $19,399 to the FEHBP for lost investment income for the period January 1, 2010 through September 30, 2011, no further action is recommended.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted], Auditor-in-Charge

[redacted] Lead Auditor

[redacted], Auditor

[redacted] Chief

[redacted], Senior Team Leader

Exhibit A

Dean Health Plan, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:		
Contract Year 2010	$551,790	
Total Defective Pricing Questioned Costs:		$551,790
Lost Investment Income:		$19,399
Total Questioned Costs:		***$571,189***

Exhibit B

Dean Health Plan, Inc.
Defective Pricing Questioned Costs

2010

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]	
FEHBP Line 5 - Audited Rate			
Overcharge	[redacted]	[redacted]	
To Annualize Overcharge:			
3/31/10 enrollment	[redacted]	[redacted]	
Pay Periods	26	26	
Subtotal	[redacted]	[redacted]	
Total Defective Pricing Questioned Costs			**$551,790**

Exhibit C

Dean Health Plan, Inc.
Lost Investment Income

Year **Audit Findings:**	2010	2011	Total
1. Defective Pricing	$551,790	$0	$551,790
Totals (per year):	$551,790	$0	$551,790
Cumulative Totals:	$551,790	$551,790	
Avg. Interest Rate (per year):	3.188%	2.5625%	
Interest on Prior Years Findings:	$0	$10,605	$10,605
Current Years Interest:	$8,794	$0	$8,794
Total Cumulative Interest Calculated Through September 30, 2011:	$8,794	$10,605	**$19,399**

APPENDIX

Dean HEALTH PLAN
1277 Deming Way | Madison, Wisconsin 53717

December 29, 2011

[redacted]
Chief, Community-Rated Audits Group
U.S. Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Drive
Suite 270
Cranberry Township, PA 16066

RE: Dean Health Plan, Inc. and Federal Employees Health Benefits Program (FEHBP)
Draft Report

This letter is in response to the proposed findings and recommendations set forth in the above-referenced draft audit report (the "Draft Report") on the Federal Employees Health Benefits Program ("FEHBP") operations at Dean Health Plan ("Dean") for contract years 2007, 2008, 2009, and 2010.

The draft report confirmed that the FEHBP rates were developed in accordance with the Office of Personnel Management's ("OPM") rules and regulations in contract years 2007-2009. However, the auditors disagreed with Dean's calculated rate for FEHBP for year 2010 and made a preliminary finding that Dean overstated the FEHBP rates by $551,790 due to defective pricing. FEHBP is seeking a rate reduction for the 2010 year due to a business adjustment factor that was used to modify a SSSG group's rate resulted a variance in the claims experience used in Dean's rate development versus the claims experience reports that were provided by Dean.

According to the FEHBP Acquisition Regulation 1652.215-70, OPM is entitled to lost investment income when rates are reduced due to defective pricing. OPM determined FEHBP is due an amount of $19,399 calculated through September 30, 2011. The regulation entitles a continuum of interest accrual as of October 1, 2011 until the overcharge is paid.

<u>OPM Recommendation 1:</u>
OPM recommends that the contracting officer require Dean to return $551,790 to the FEHBP for defective pricing in contract year 2010.

<u>Dean's Comments to Recommendation 1:</u>
Dean agrees with OPM's defective price finding and the variance in the claims experience reports. Dean does not wish to contest the overstated amount of $551,790. The overstated amount will be returned as recommended.

APPENDIX

Dean HEALTH PLAN
1277 Deming Way | Madison, Wisconsin 53717

<u>OPM Recommendation 2:</u>
OPM recommends that the contracting officer require the Plan to return $19,399 to the FEHBP for lost investment income for the period of January 1, 2010 through September 30, 2011. In addition, we recommend that the contracting office recover lost investment income on amounts due for the period beginning October 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

<u>Dean's Comments to Recommendation 2:</u>
Dean is in agreement with the FEHBP Acquisition Regulation 1652.215-70 and that 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.

Dean is in disagreement with the interest accrual timeframe being calculated through to September 30, 2011. Dean received the issued draft report, November 28, 2011; 105 days past the 90 day draft report deadline as stated by the OPM auditors in the entrance conference of June 13, 2011. Dean is being charged interest on a matter that was unknown to the plan. Dean is requesting the accrual interest timeframe to end as of the noted September 30, 2011 date. Dean agrees with the variance charge from recommendation one, that if Dean would have received the draft report in August, there would not have been any additional interest accrual amount being added. Dean would like to request all interest accrual ends as of the month of September since Dean is not contesting the findings and will pay the defective pricing amount of $551,790 plus the nine months of interest accrual, $19,399 for a total of $571,189.

<u>Conclusion:</u>
In closing, Dean is in agreement with OPM's Recommendation 1 and partially agrees with Recommendation 2. Dean is requesting the interest accrual to end as of September 30 with no additional added interest there forward. Dean is proposing an amount due to OPM of $571,189.

Enclosed please find a check in the amount of $571,189 to close this matter. We would be happy to respond to any additional questions you may have and consider this matter closed.

Please contact me at [redacted] for any additional information you may require.

Sincerely,

Lon Sprecher, President and CEO
Dean Health Plan

Dean Health Plan, Inc. *a subsidiary of Dean Health Insurance, Inc.*
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