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 Presbyterian Health Plan, Inc.

Report No. **1C-P2-00-10-008**

Date: October 15, 2010

-- CAUTION --

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
Presbyterian Health Plan, Inc.
Contract Number CS 2627 - Plan Code P2
Albuquerque, New Mexico

Report No. 1C-P2-00-10-008 **Date:** October 15, 2010

Michael R. Esser
Assistant Inspector General
for Audits

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Presbyterian Health Plan, Inc.
Contract Number CS 2627 - Plan Code P2
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The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Presbyterian Health Plan, Inc. (Plan). The audit covered contract years 2007 through 2009 and was conducted at the Plan's office in Albuquerque, New Mexico.

This report questions $1,154,630 for defective pricing in contract years 2008 and 2009. The questioned amount includes $1,075,400 for inappropriate health benefit charges and $79,230 due the FEHBP for lost investment income, calculated through September 30, 2010. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2007.

For contract year 2008, we determined that the FEHBP's rates were overstated by $496,521 due to defective pricing. More specifically, the Plan used an inconsistent application of the incurred but not reported (IBNR) factors for the FEHBP when compared to the IBNR methodology used for both similarly sized subscriber groups (SSSG). The Plan also did not apply an SSSG discount to the FEHBP's rates.

For contract year 2009, we determined that the FEHBP's rates were overstated by $578,879 due to defective pricing. More specifically, the Plan incorrectly charged the FEHBP a [redacted] percent state assessment to cover the New Mexico Health Insurer Alliance and the New Mexico Medical Insurance Pool mandate.

Consistent with the FEHBP regulations and the contract, the FEHBP is due $79,230 for lost investment income, calculated through September 30, 2010, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning October 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Presbyterian Health Plan, Inc. (Plan) in Albuquerque, New Mexico. The audit covered contract years 2007 through 2009. The audit was conducted pursuant to the provisions of Contract CS 2627; 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

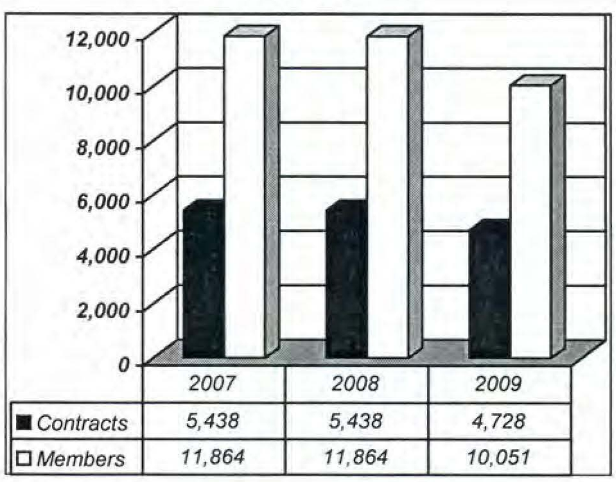
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Retirement and Benefits Office. The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

FEHBP Contracts/Members
March 31



The Plan has participated in the FEHBP since 1991 and provides health benefits to FEHBP members in all counties of New Mexico. The last audit conducted by our office was a full scope audit and covered contract years 2003, 2004, and 2006. All matters related to that audit have been resolved.

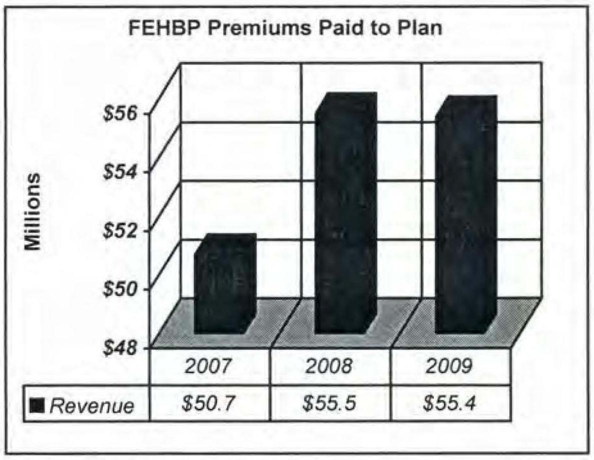
The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in the preparation of this report and are included, as appropriate, 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 2009. For these contract years, the FEHBP paid approximately $161.6 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 Albuquerque, New Mexico, during March 2010. Additional audit work was completed at our field offices in 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. 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.

Premium Rates

1. Defective Pricing $1,075,400

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 $1,075,400 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract year 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] did not receive a discount and [redacted] received [redacted] discount. The Plan did not apply the [redacted] percent discount that [redacted] received to the FEHBP's rates in contract year 2008.

In addition, we reviewed the FEHBP's rates and found that the Plan was using an inconsistent rating methodology in its application of the incurred but not reported (IBNR) factors. The Plan originally rated the FEHBP using an annual IBNR factor but rated both SSSGs using monthly IBNR factors.

We applied the monthly IBNR factors to the FEHBP's monthly medical claims data, based on the 2008 Community Rating Instructions, which state that the carrier should use the same rating method for the Federal group as it uses for the SSSGs. We accept different rating methods in some situations. If, however, the carrier rates an SSSG using a method inconsistent with the carrier-established policies, the Federal group is entitled to a discount based on the SSSG rating method applied to the Federal group. When we applied the monthly IBNR factors to the FEHBP's medical claims data, the Incurred Completion Factor was reduced from [redacted] to [redacted]

We re-developed the FEHBP's rates by applying the monthly IBNR factors to the medical claims data and by applying the [redacted] percent discount, granted to [redacted] to the line 5 rates. A comparison of the reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged $496,521 in 2008 (see Exhibit B).

<u>Plan's Comments (See Appendix):</u>

The Plan does not dispute the IBNR finding for 2008.

However, the Plan disagrees with the finding regarding the [redacted] percent discount that [redacted] received. The Plan states that [redacted] had [redacted] pre-65 retirees that were billed a higher premium than the rest of the [redacted] active employees group in the first quarter of 2007, when the 2008 renewal was being calculated. The calculation of the [redacted] percent discount did not consider the higher rates billed to the [redacted] pre-65 retirees in 2007.

In addition, the [redacted] pre-65 retirees terminated coverage before January 1, 2008 (March 31, 2007 and May 31, 2006 respectively) and were not covered in any month of 2008. Detailed bills were included for each month of 2008 to show that neither subscriber was covered in 2008.

Based on this information the Plan disputes the finding that [redacted] was given a discount of [redacted] percent; therefore, they state that the defective pricing amount for 2008 should be reduced by approximately $120,000, plus any interest on that amount.

<u>OIG's Response to the Plan's Comments:</u>

We acknowledge the Plan's agreement with the IBNR finding and the subsequent application of the monthly IBNR factors to the FEHBP's rates in contract year 2008.

We disagree with the Plan's assertion that the [redacted] pre-65 retirees received a higher billed rate in the first quarter of 2007. While on-site, we obtained copies of the March 2007 bills, which show the [redacted] pre-65 retirees receiving the same rate as the active enrollees ([redacted] single and [redacted] employee and spouse). The 2007 billed rates affect the calculation of the current per member per month (PMPM) rates, which we calculated at a lower amount than the Plan used in [redacted] rate development. The variance in the current PMPM leads to an increased rate change and ultimately an increased rate for 2008.

We also disagree with the Plan's assertion that removing the [redacted] pre-65 retirees and the [redacted] from the quoted rate model, due to termination, would negate the discount that [redacted] received. When we removed [redacted] from the single tier, [redacted] from the employee and spouse tier, and [redacted] from the total members, the discount for [redacted] slightly increased to [redacted] percent.

Another issue that we have with the Plan's argument is the fact that the Plan states that one of the pre-65 retirees terminated as of May 31, 2006. The enrollment system report that was provided in the Plan's response to the draft report supports the date of termination, but the bills that were provided on-site continue to show the pre-65 enrollee being billed by the Plan until at least March 2007.

The information provided by the Plan does not change our original conclusion that [redacted] received a discount due to the fact that the bills show the pre-65 retirees being charged the same amount as the active members. We continue to contend that [redacted] received a [redacted] percent discount and this discount was not applied to the FEHBP rates.

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 neither group received a discount.

We reviewed the FEHBP's rates and found that the Plan charged a [redacted] percent loading for an insurance pool assessment. The insurance pool assessment loading is a state mandated charge for the New Mexico Medical Insurance Pool (NMMIP) and the New Mexico Health Insurer Alliance (NMHIA). The NMMIP is a state assessment that allows for coverage of uninsured New Mexico state residents. The NMHIA is an alliance of the New Mexico Insurers that allows underwriting of individuals and small businesses. This allows the risk to be spread across all insurers.

State assessments are an unallowable cost identified by the 2009 Community Rating Instructions which prohibits the imposition of taxes, fees, or other monetary payment, directly or indirectly, on FEHBP premiums by any State, the District of Columbia, or the Commonwealth of Puerto Rico or by any political subdivision or other governmental authority of those entities.

We re-developed the FEHBP's rates by removing the insurance pool assessments. A comparison of the reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged $578,879 in 2009 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan does not dispute this finding for 2009.

Recommendation 1

We recommend that the contracting officer require the Plan to return $1,075,400 to the FEHBP for defective pricing in contract years 2008 and 2009.

2. Lost Investment Income $79,230

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 $79,230 for lost investment income, calculated through September 30, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning October 1, 2010, until all defective pricing finding amounts have been returned to the FEHBP.

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 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 does not dispute lost investment income being calculated for the IBNR finding in 2008 or the state assessment finding in 2009. The Plan does not agree with the SSSG discount finding in 2008 and feels that lost investment income should not be calculated for the amount related to that finding.

OIG's Response to the Plan's Comments:

We disagree with the Plan's assertion that lost investment income should not be calculated for the SSSG discount finding in 2008. We feel that the finding is correct and will continue to assess lost investment income for the full amount of findings in contract years 2008 and 2009.

Recommendation 2

We recommend that the contracting officer require the Plan to return $79,230 to the FEHBP for lost investment income for the period January 1, 2008 through September 30, 2010. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning October 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted] Auditor-In-Charge

[redacted] Auditor

[redacted] Auditor

[redacted] Chief

[redacted] Senior Team Leader

Exhibit A

Presbyterian Health Plan, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:		
Contract Year 2008	$496,521	
Contract Year 2009	$578,879	
Total Defective Pricing Questioned Costs:		$1,075,400
Lost Investment Income:		$79,230
Total Questioned Costs:		***$1,154,630***

Presbyterian Health Plan, Inc.
Defective Pricing Questioned Costs

2008 - High Option

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]	
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment	[redacted]		
Pay Periods	26	26	
Subtotal	$115,489	$365,922	
Total 2008 - High Option Defective Pricing Questioned Costs			**$481,411**

2008 - Standard Option

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]		
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment			
Pay Periods	26	26	
Subtotal	$4,593	$10,517	
Total 2008 - Standard Option Defective Pricing Questioned Costs			**$15,110**

Total 2008 Defective Pricing Questioned Costs	**$496,521**

Presbyterian Health Plan, Inc.
Defective Pricing Questioned Costs

2009 - High Option

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]		
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/09 enrollment			
Pay Periods	26	26	
Subtotal	$130,266	$385,382	
Total 2009 - High Option Defective Pricing Questioned Costs			$515,648

2009 - Standard Option

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]		
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/09 enrollment			
Pay Periods	26	26	
Subtotal	$11,794	$51,437	
Total 2009 - Standard Option Defective Pricing Questioned Costs			$63,231
Total 2009 Defective Pricing Questioned Costs			**$578,879**
Toal Defective Pricing Questioned Costs			**$1,075,400**

EXHIBIT C

Presbyterian Health Plan, Inc.
Lost Investment Income

Year **Audit Findings:**	2007	2008	2009	2010	Total
1. Defective Pricing	$0	$496,521	$578,879	$0	$1,075,400
Totals (per year):	$0	$496,521	$578,879	$0	$1,075,400
Cumulative Totals:	$0	$496,521	$1,075,400	$1,075,400	
Avg. Interest Rate (per year):	5.5000%	4.9375%	5.2500%	3.1875%	
Interest on Prior Years Findings:	$0	$0	$26,067	$25,709	$51,776
Current Years Interest:	$0	$12,258	$15,196	$0	$27,454
Total Cumulative Interest Calculated Through September 30, 2010:	$0	$12,258	$41,263	$25,709	**$79,230**

PRESBYTERIAN

2010 SEP 14 PM 3: 08

September 8, 2010

[redacted]
Chief, Community-Rated Audits Group
U.S. Office of Personnel Management
Office of Inspector General
1900 E Street, NW
Room 6400
Washington, D. C. 20415-110

Re: Presbyterian Response to Draft of Proposed Report – OPM
Report Number: 1C-P2-00-10-008
Date: June 17, 2010

Dear [redacted]:

Thank you for the opportunity to respond to the Draft Report for PHP FEHBP plan. Following are responses to the various findings.

2008 – [redacted] percent discount

The OIG audit team calculated a discount of [redacted] for the January 1, 2008 [redacted] renewal.

[redacted] had [redacted] pre 65 retirees that were billed a higher premium than the rest of the [redacted] active employees in the first quarter of 2007 when the January 1, 2008 renewal was being calculated. The [redacted] pre 65 retirees were:

[redacted]

The presumption of the OIG audit team in arriving at the [redacted] discount was that these [redacted] individuals were billed at the lower active rates in 2008.

However, we have since been able to do additional research back to the relevant points in time. I am attaching the April 2007 demographic report which shows the [redacted] in the retiree class.

terminated coverage with us effective 3/31/2007.
retroactively terminated coverage back to 5/31/2006.

[redacted] terminated coverage before January 1, 2008 and were not covered in any month of 2008. I am including the detailed bills for each month of 2008 to show that [redacted] was covered in 2008.

Based on this information we dispute the finding that [redacted] was given a discount of [redacted] therefore the defective pricing amount for 2008 FEHBP should be reduced by approximately $120,000 plus any interest on that amount.

OTHER FINDINGS

Presbyterian does not dispute the IBNR finding for 2008 or the State Assessment finding for 2009.

Thanks for your consideration related to this finding.

Sincerely

[redacted]

Senior Actuarial Assistant
Presbyterian Health Plan