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

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# Final Audit Report

**AUDIT OF THE FEDERAL EMPLOYEES HEALTH  
BENEFITS PROGRAM OPERATIONS AT THE  
HEALTH PLAN OF NEVADA, INC.**

**Report Number 1C-NM-00-14-056  
January 14, 2015**

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# EXECUTIVE SUMMARY

## *Audit of the Federal Employees Health Benefits Program Operations at the Health Plan of Nevada, Inc.*

Report No. 1C NM 00 14 056

January 14, 2015

### **Why Did We Conduct The Audit?**

The objectives of our audit were to determine if the Health Plan of Nevada, Inc. (Plan) offered the Federal Employees Health Benefits Program (FEHBP) market price rates and that the loadings applied 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.

### **What Did We Audit?**

Under contract 1942, the Office of the Inspector General completed a performance audit of the FEHBP's rates offered for contract year 2012. Our audit was conducted from July 7, 2014 through July 11, 2014 at the Plan's office in Las Vegas, Nevada.

### **What Did We Find?**

We determined that the FEHBP rates were developed by the Plan in accordance with applicable laws, regulations, and the U.S. Office of Personnel Management's Rate Instructions to Community-Rated Carriers for the year audited. We therefore did not issue a draft report and are not making any recommendations.



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**Michael R. Esser**  
*Assistant Inspector General  
for Audits*

# ABBREVIATIONS

<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>FY</b>	<b>Fiscal Year</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>PLAN</b>	<b>The Health Plan of Nevada, Inc.</b>
<b>SSSG</b>	<b>Similarly Sized Subscriber Group</b>
<b>U.S.C.</b>	<b>United States Code</b>

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# I. BACKGROUND

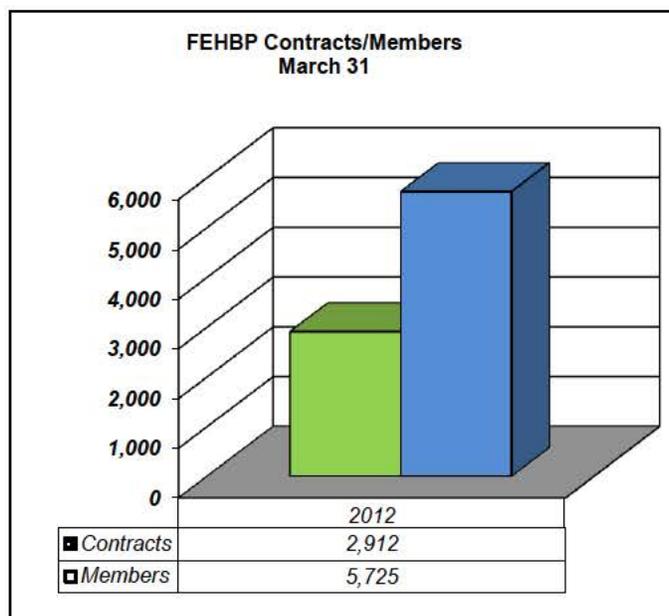
The Federal Employees Health Benefits Program (FEHBP) was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by the U.S. Office of Personnel Management's (OPM) 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, Code of Federal Regulations (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 that the Health Plan of Nevada, Inc. (Plan) reported 2,912 contracts and 5,725 members for the FEHBP as of March 31 for contract year 2012.

The Plan has participated in the FEHBP since 1984 and provides health benefits to FEHBP members in the Clark, Esmeralda and Nye Counties of Nevada. The last audit conducted by our office was a full scope audit and covered contract years 2009 through 2011. There were no issues identified during that audit.



The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. Since the audit concluded that the Plan's rating of the FEHBP was in accordance with applicable laws, regulations, and OPM Rate Instructions to Community-Rated Carriers (rate instructions), a draft report was not issued.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### **Objective**

The primary objectives of the audit were to determine if the Plan offered the FEHBP market price rates and 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 and Methodology**

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 year 2012. For that year, the FEHBP paid approximately \$24.5 million in premiums to the Plan.

OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the 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 Las Vegas, Nevada in July 2014.

We examined the Plan's federal rate submission 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 the rate instructions 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.

### III. RESULTS OF THE AUDIT

Our audit showed that the Plan's rating of the FEHBP was in accordance with applicable laws, regulations, and the rate instructions for contract year 2012. Consequently, the audit did not identify any questioned costs and no corrective action is necessary.

# IV. MAJOR CONTRIBUTORS TO THE AUDIT

## COMMUNITY-RATED AUDITS GROUP

██████████, Auditor-in-Charge

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██████████, Chief

██████████, Senior Team Leader



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