



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 HealthAmerica Pennsylvania, Inc.

Report No. 1C-SW-00-14-004

Date: May 7, 2014

-- CAUTION --

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AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
HealthAmerica Pennsylvania, Inc.
Contract Number CS 2078-A - Plan Code SW
Harrisburg, Pennsylvania**

Report No. 1C-SW-00-14-004

Date: May 7, 2014



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Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
HealthAmerica Pennsylvania, Inc.
Contract Number CS 2078-A - Plan Code SW
Harrisburg, Pennsylvania**

Report No. 1C-SW-00-04-004

Date: May 7, 2014

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthAmerica Pennsylvania, Inc. (Plan). The audit covered contract year 2012, and represents a close-out audit of plan code SW. Based on our audit, we have no questioned costs; however, we found the Plan applied inappropriate loadings to the FEHBP rates in 2012.

In contract year 2012, the Plan applied autism and mental health parity loadings to the FEHBP rates. The costs associated with these loadings are included in the claims experience used to develop the FEHBP premium rates; therefore, no additional loadings are necessary. In developing the audited FEHBP rates, we removed the autism and mental health parity loadings. Due to other adjustments to our audited FEHBP rates, there was no cost impact in contract year 2012.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthAmerica Pennsylvania, Inc. (Plan). The audit covered contract year 2012, and was conducted from our office located in Cranberry Township, Pennsylvania. The audit was conducted pursuant to the provisions of Contract CS 2078-A; 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.

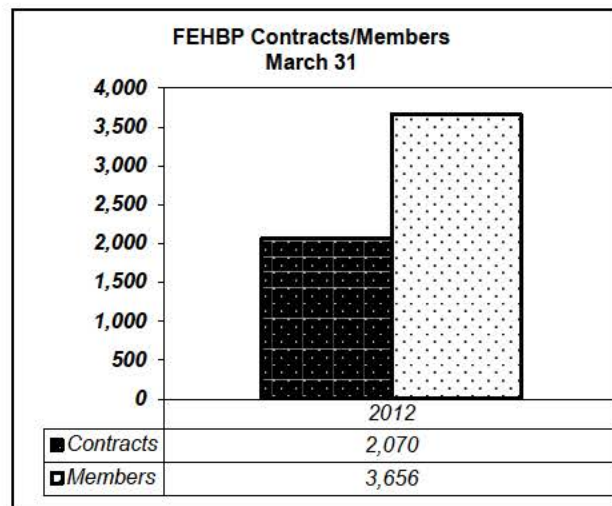
Background

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, 2012.



The Plan has participated in the FEHBP since 2005 and provides health benefits to FEHBP members in the Central Pennsylvania area. This audit represents a close-out of FEHBP coverage under plan code SW effective January 1, 2013. The last audit of the Plan conducted by our office covered contract years 2010 and 2011. All issues from that audit have been resolved.

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 year 2012. For this year, the FEHBP paid approximately \$20 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 conducted from our office located 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 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. AUDIT FINDINGS AND RECOMMENDATION

1. Premium Rate Review

Based on our audit, we have accepted the Plan's rating of the FEHBP for contract year 2012, and have no questioned costs.

2. Inappropriate Benefit Loadings

In contract year 2012, the Plan inappropriately applied mental health parity and autism loadings to the FEHBP rates.

The mental health parity loading relates to the Mental Health Parity and Addiction Equity Act that became effective January 1, 2010. However, the FEHBP's benefits have included mental health parity for several years and the cost is reflected in the claims experience used to develop the FEHBP rates. Therefore, this additional loading is unnecessary.

The autism loading relates to the cost for diagnostic assessment and treatment of individuals with Autism Spectrum Disorders (ASD). The FEHBP consistently provided medically necessary services for enrollees as part of its OPM-approved benefit package. The cost of allowable ASD services is reflected in the claims experience used to develop the FEHBP rates. Therefore, this additional loading is unnecessary.

As a result, we removed the loadings from our audited FEHBP rates. Due to other adjustments to our audited FEHBP rates, the removal of the mental health parity and autism loadings had no cost impact to the FEHBP rates.

Plan's Comments (see Appendix):

The Plan agrees to exclude mental health parity and ASD loadings in the FEHBP rate development should they decide to contract with the FEHBP in the future.

Recommendation 1

We recommend that the contracting officer require that the Plan agree to exclude mental health parity and autism loadings in FEHBP rate developments, should the Plan decide to contract with the FEHBP in the future.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-in-Charge

██████████., Chief

██████████, Senior Team Leader



March 12, 2014

U.S. Office of Personnel Management
Office of Inspector General
800 Cranberry Woods Drive
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Cranberry Township, Pennsylvania 16066

RE: **2012 Draft Report – Report No. 1C-SW-0-14-004**

Office of the Actuaries:

In response to the draft audit report for Plan Code SW, Report No. 1C-SW-00-14-004 we acknowledge that there are no questioned cost. We also acknowledge the inappropriate loadings to the FEHBP rates in 2012. In contract year 2012, the Plan applied autism and mental health parity loadings to the FEHBP rates. The costs associated with these loadings were included in the claims experience used to develop the FEHBP premium rates; therefore, no additional loadings are necessary. When the Office of Personnel Management developed the audited FEHBP rates, the autism and mental health parity loadings were removed. Due to the other adjustments for the audited FEHBP rates, there was no cost impact in contract year 2012. This finding was pointed out to the Health Plan in the 2011 audit and we have acted on the recommendation that was made that the Plan would exclude mental health parity and autism loadings in FEHBP rate developments, should we decide to contract with the FEHBP in the future.

Should you have any questions, please contact [REDACTED] at [REDACTED] or me at [REDACTED].

Sincerely,

[REDACTED]
Interim Chief Financial Officer and Controller
HealthAmerica/Coventry Health Care

Cc: [REDACTED]