



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

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# Final Audit Report

**Subject:**

## **Audit of the Federal Employees Health Benefits Program Operations at United Healthcare of California**

**Report No. 1C-CY-00-13-029**

**Date: January 8, 2014**

**-- CAUTION --**

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

## AUDIT REPORT

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
United Healthcare of California  
Contract Number CS 1937 - Plan Code CY  
Cypress, California**

Report No. 1C-CY-00-13-029

Date: January 8, 2014



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

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## EXECUTIVE SUMMARY

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**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
United Healthcare of California  
Contract Number CS 1937 - Plan Code CY  
Cypress, California**

**Report No. 1C-CY-00-13-029**

**Date: January 8, 2014**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at United Healthcare of California (Plan). The audit covered contract years 2010 through 2012. The audit was conducted at the Plan's office in Cypress, California. Based on our audit, we determined that the Plan applied an inappropriate benefit loading to the FEHBP rates in all contract years, and paid for non-covered benefits during contract year 2012. However, the impact of these findings on the rates was immaterial, and therefore we have no questioned costs to report.

For all contract years audited, we found that the Plan charged the FEHBP for internal prosthetics related to penile implants. The Plan indicated that no other group is charged for this coverage. Neither the Plan nor OPM's contracting office were able to provide documentation that requested coverage of this specific benefit. Since a penile prosthesis is considered to be an internal prosthetic and is included under internal prosthetics for all other groups, we disallowed the charge. However, after the charge was removed, we found there was no material cost impact to the rates for any of the contract years audited.

During our review of the Plan's FEHBP claims data, we found that the Plan had paid for non-covered benefits during contract year 2012. The monetary impact of these findings was not

significant enough to result in questioned costs; however, they represent procedural issues we believe need to be addressed by the Plan.

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# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at United Healthcare of California (Plan). The audit covered contract years 2010 through 2012, and was conducted at the Plan's office in Cypress, California. The audit was conducted pursuant to the provisions of Contract CS 1937; 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.

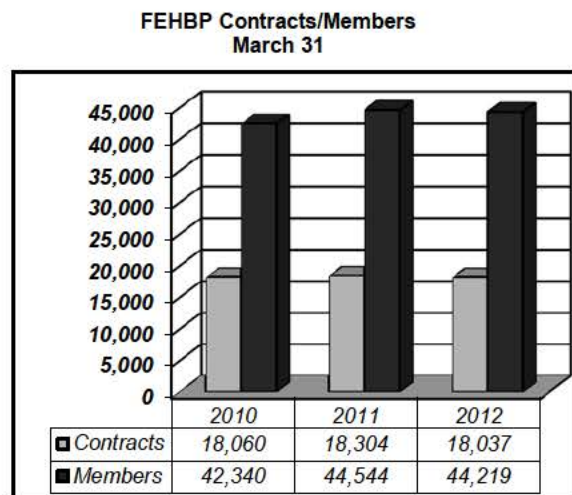
## **Background**

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.



The Plan has participated in the FEHBP since 2004 and provides health benefits to FEHBP members in Central and Southern California. A previous full scope audit of the Plan covered contract years 2008 and 2009. The report indicated that the Plan's rating of the FEHBP was in accordance with the applicable laws, regulations, and OPM's Rate Instructions to Community Rated Carriers (rate instructions).

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 preparation of this report and included, as appropriate, in the Appendix.

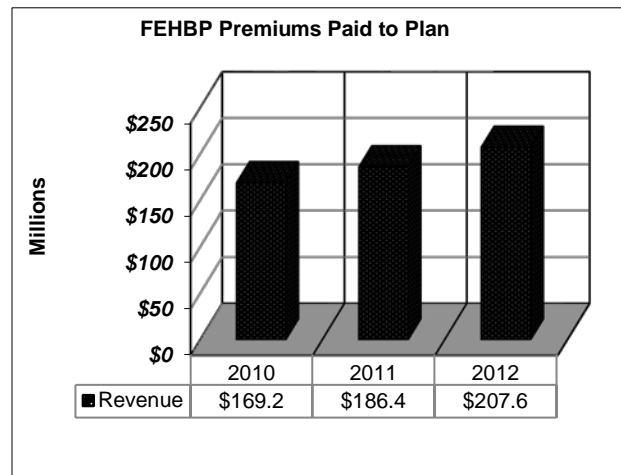
## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **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 2010 through 2012. For these contract years, the FEHBP paid approximately \$563.2 million in premiums to the Plan, as 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 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 SSSGs 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 Cypress, California during February and March 2013. Additional audit work was completed at our offices in Washington, D.C., and 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 RECOMMENDATIONS**

#### **Premium Rate Review**

##### **1. Inappropriate Benefit Loading**

For all contract years audited, we found that the Plan charged the FEHBP for internal prosthetics related to penile implants. The Plan indicated that no other group is charged for this coverage. Neither the Plan nor OPM's contracting office was able to provide documentation that requested coverage of this specific benefit. Since this implant is considered to be an internal prosthetic and is included under internal prosthetics for all other groups, we disallowed the benefit loading. However, after the charges were removed from the rate development, we found there was no material cost impact to the rates for any of the contract years audited.

##### **Plan's Comments (see Appendix):**

The Plan disagrees that this loading is inappropriate. The Plan states that the loading was specifically requested by OPM. The Plan also states that OPM's contracting office requested that the Plan not spell out this benefit in the brochure. The Plan has covered the benefit for several years and has always charged for the benefit as a load due to the fact that penile prosthetics are not covered for their commercial business. The Plan has requested OPM's contracting office to make a written request to exclude the benefit if OPM no longer wants coverage for penile prosthetics.

##### **OIG's Response to the Plan's Comments:**

During the audit, we requested documentation from the Plan to support the request from OPM to have penile prosthetics covered. The Plan was unable to provide documentation that showed OPM requested coverage of penile prosthetics. We also asked OPM's contracting office to provide documentation to support a request for coverage. OPM's contracting office had no record of the Plan's assertion.

The benefit is not charged to any other group and is covered under internal prosthetics. We maintain that the penile prosthetic loading should not be charged to the FEHBP.

##### **Recommendation 1**

We recommend that the contracting officer require the Plan to remove the prosthetic loading in the FEHBP rate development going forward.

## **Claims Review**

### **2. Payment of Non-covered Benefits**

The FEHBP benefit brochures for 2009 through 2012 state that eye exercises are not a covered benefit. Our review of the FEHBP claims determined that non-covered eye exercises were paid in 2012. The amount of the non-covered claims was not significant enough to affect the final 2012 audited rates. However, the Plan's claim monitoring system should be more effective in identifying and removing non-covered claims before any payment is made. The Plan stated the claims were paid in error.

#### **Plan's Comments (see Appendix):**

The Plan agrees with our finding.

#### **Recommendation 2**

We recommend that the contracting officer require the Plan to effectively monitor all FEHBP claims to identify non-covered benefits. In particular, we recommend that the Plan's claim system track all eye exercise claims so these claims are rejected as a non-covered benefit.

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### **Community-Rated Audits Group**

██████████, Auditor-in-Charge

██████████ Auditor

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██████████ Chief

██████████, Senior Team Leader

Rec'd  
SEPT 25, 2013  
JW

September 24, 2013

[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, Pennsylvania 16066

RE: Comments to the Draft Audit Report on UnitedHealthcare of California, Plan Code CY, Report No. 1C-CY-00-13-029

Dear [REDACTED]:

On July 29, 2013, the United States Office of Personnel Management, Office of the Inspector General ("OPM/OIG") submitted to the Plan a "Draft Report" (1C-CY-00-13-029) ("Draft Report"), detailing the results of its audit of the Federal Employees Health Benefits Program ("FEHBP") operations of UnitedHealthcare of California for contract years 2010 through 2012. Upon submission, OPM/OIG requested that the Plan provide comments to the Draft Report.

The Plan appreciates the opportunity to respond to this Draft Report and the willingness of OPM to help resolve the outstanding issues in this audit. The Plan has used its best efforts to obtain all relevant information to respond to the Draft Report's findings and recommendations. This Response will address each issue presented in the Draft Report.

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### **Inappropriate Benefit Loading**

#### **Recommendation 3**

OPM's position is that the benefit loading for the penile prosthesis is inappropriate as it is not called out in the brochure separately as a covered benefit and should be considered an "internal prosthetic" and covered as all other "internal prosthetics". The Plan disagrees with this assertion. The penile prosthetic benefit was specifically requested to be covered by OPM. However, OPM's contracting office requested that the Plan not call out the benefit separately in the brochure. The Plan has covered the benefit for several years and has always charged for the benefit as a load due to the fact that penile prosthetics are not covered for the commercial business. If OPM is requesting that we no longer cover the benefit for penile prosthetics, the Plan requests OPM's contracting office request in writing the exclusion of this benefit.

### **CLAIMS REVIEW**

#### **Payment of Non-covered Benefits**

OPM/OIG noted that non-covered eye exercises, which are not a covered benefit, were paid. The Plan acknowledges that eye exercises are a non-covered benefit and were paid in error. The Plan and OPM/OIG agree that the amount in question was not material and would have no impact on the pricing.

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### CONCLUSION

In conclusion, the Plan has reviewed OPM/OIG's findings for 2010 – 2012, presented in the Draft Report 1C-CY-00-12-029. Based on our review of the information, the Plan has determined that there was not an overpayment by FEHBP.

Once you have had an opportunity to review our response, please contact me if you have any questions or require additional information. Thank you for your ongoing cooperation.

Respectfully,

[Redacted Signature]

Director

[Redacted Title]