



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 Fallon Community Health Plan

Report No. 1C-JG-00-14-010

Date: July 30, 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
Fallon Community Health Plan
Contract Number CS 1917 - Plan Code JG
Worcester, Massachusetts**

Report No. 1C-JG-00-14-010

Date: July 30, 2014



Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Fallon Community Health Plan
Contract Number CS 1917 - Plan Code JG
Worcester, Massachusetts**

Report No. 1C-JG-00-04-010

Date: July 30, 2014

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Fallon Community Health Plan (Plan). The audit covered contract year 2011, and was conducted at the Plan's office in Worcester, Massachusetts. Based on our audit, we have no questioned costs. However, we found that the Plan applied an inappropriate charge and loadings to the FEHBP rates in contract year 2011.

We determined that the FEHBP was charged for two wellness benefits called "It Fits" and "Oh, Baby." These wellness benefits were listed in the brochure under the Non-FEHB benefits available to Plan members section and are not part of the FEHBP contract, and therefore cannot be part of the FEHBP premiums.

We also determined the FEHBP was charged a state assessment for mass vaccines. State taxes, fees or other monetary payments (i.e., state assessments) are not chargeable to the FEHBP as stated in the 2011 Rate Instructions to Community Rated Carriers.

Finally, the Plan applied an incorrect retention load in the FEHBP rate development. The Plan's rating methodology called for ■ percent, however, the Plan used ■ percent for the FEHBP. After making these corrections to the FEHBP rates, we found there was no material cost impact to the 2011 FEHBP rates.

CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND.....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATION	5
1. Premium Rate Review	5
2. Pricing Errors (Procedural Finding)	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT	7
Appendix (Fallon Community Health Plan’s June 10, 2014 response to the draft report)	

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Fallon Community Health Plan (Plan). The audit covered contract year 2011, and was conducted at the Plan's office in Worcester, Massachusetts. The audit was conducted pursuant to the provisions of Contract CS 1917; 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.

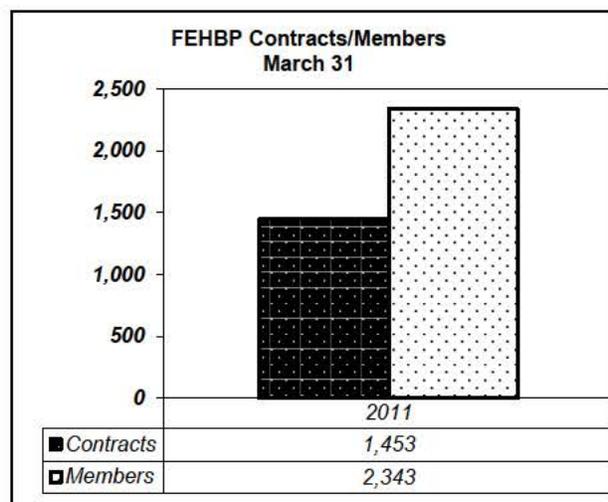
Background

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, 2011.



The Plan has participated in the FEHBP since 2011 and provides health benefits to FEHBP members in the Massachusetts area. The last audit of the Plan conducted by our office was a rate reconciliation audit that covered contract year 2010. There were no findings related to that audit.

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 2011. For this year, the FEHBP paid approximately \$15.8 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 OPM's Rate Instructions to Community Rated Carriers (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 at the Plan's office in Worcester, Massachusetts during November 2013.

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 FEHBP rates for contract year 2011 and have no questioned costs.

2. Pricing Errors (Procedural Finding)

The Plan made the following pricing errors for contract year 2011:

- **Non-FEHB Benefits:** We determined that the FEHBP was charged for two wellness programs called "It Fits" and "Oh, Baby." "It Fits" provides reimbursements to local fitness centers, Weight Watchers, and school sports programs. "Oh, Baby" is a health and wellness program for birth, baby, and beyond and provides pre-natal vitamins, car seats, and a child care book. These wellness programs were listed in the benefit brochure under the Non-FEHB benefits available to Plan members section and are not part of the contract, and therefore cannot be part of the premiums. The Plan incorrectly charged the FEHBP [REDACTED] per-member-per-month (PMPM) for the "It Fits" program and \$ [REDACTED] PMPM for the "Oh, Baby" program. As a result, we removed these charges from our audited FEHBP rate development.
- **State Assessment for Mass Vaccines:** We determined the FEHBP was charged a state assessment for mass vaccines. This assessment funds a state program that provides vaccinations to children of low income families in Massachusetts. The assessment is not related to the vaccine benefit provided to FEHBP members. The Plan incorrectly charged the FEHBP [REDACTED] PMPM for this state assessment. As stated in the 2011 rate instructions, "5 U.S.C. 8909 prohibits the imposition of taxes, fees, or other monetary payment, directly or indirectly, on FEHBP premiums by any State." As a result, we removed this charge from our audited FEHBP rate development.
- **Retention Load:** We determined the Plan applied an incorrect retention load in the FEHBP rate development. The Plan's rating methodology called for a [REDACTED] percent retention load, however, the Plan used [REDACTED] percent for the FEHBP. The Plan's retention table was based on the number of subscribers and was consistently used for all groups reviewed. As a result, we used the [REDACTED] percent retention load in our audited FEHBP rate development.

After making these corrections, we found there was no material cost impact to the 2011 FEHBP rates.

Plan's Comments (see Appendix):

The Plan agrees with our findings.

Recommendation 1

Going forward, we recommend that the contracting officer require the Plan to:

- Exclude all charges associated with Non-FEHB benefits provided to plan members, including costs associated with the “It Fits” and “Oh, Baby” programs;
- Exclude all charges related to the state assessment for mass vaccines; and
- Follow its standard rating methodology, OPM rate instructions, FEHBP regulations, and the contract when developing FEHBP premiums.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Lead Auditor

██████████ Chief

██████████, Senior Team Leader

APPENDIX

From: [REDACTED]
Sent: Tuesday, June 10, 2014 1:50 PM
To: [REDACTED]
Subject: RE: Draft response

[REDACTED] Please take this email as our agreement with your findings that pricing variances are minimal and we agree that no action need be taken.

Thank you,

[REDACTED]
Sr. Director of Underwriting
Fallon Community Health Plan (Fallon Health)