



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  
HealthAmerica Pennsylvania, Inc.**

**Report No. 1C-26-00-12-026**

**Date: November 6, 2012**

**-- CAUTION --**

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## AUDIT REPORT

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
HealthAmerica Pennsylvania, Inc.  
Contract Number CS 2924-A - Plan Code 26  
Pittsburgh, Pennsylvania**

Report No. 1C-26-00-12-026

Date: November 6, 2012



**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  
HealthAmerica Pennsylvania, Inc.  
Contract Number CS 2924-A - Plan Code 26  
Pittsburgh, Pennsylvania**

**Report No. 1C-26-00-12-026**

**Date: November 6, 2012**

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 years 2009 through 2011, and was conducted at the Plan's office in Pittsburgh, Pennsylvania. Based on our audit of these contract years, we have no questioned costs. However, we found the Plan applied inappropriate loadings to the FEHBP rates in all contract years.

In contract years 2009 and 2010, the Plan applied a medical management fee to the FEHBP rates that was greater than the amount supported by the documentation. The amount applied was inappropriately allocated based on estimated usage percentages instead of the ratio of group enrollment to total enrollment.

Additionally in contract years 2010 and 2011, the Plan applied an autism loading 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 adjusted the medical management fee in 2009 and 2010, and removed the autism loading from 2010 and 2011. Due to other adjustments to our audited FEHBP rates, there was no cost impact to the FEHBP rates in contract years 2009 through 2011.

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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 years 2009 through 2011, and was conducted at the Plan's office in Pittsburgh, Pennsylvania. The audit was conducted pursuant to the provisions of Contract CS 2924-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**

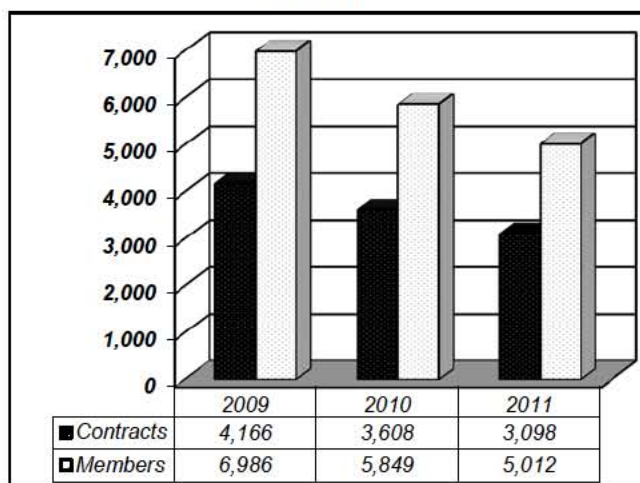
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office. 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 for each contract year audited. The Plan has participated in the FEHBP since 1986 and provides health benefits to FEHBP members in the Greater Pittsburgh and Northwestern Pennsylvania areas. The last audit of the Plan conducted

**FEHBP Contracts/Members  
March 31**



by our office was in 2009 and covered contract years 2006 through 2008. All issues from that audit have been resolved.

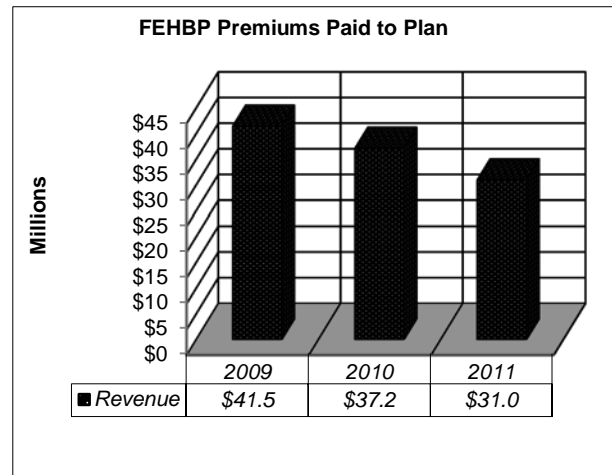
## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **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 years 2009 through 2011. For these contract years, the FEHBP paid approximately \$109.7 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 Pittsburgh, Pennsylvania, during April 2012. Additional audit work was completed at our offices in Jacksonville, Florida 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 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 policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.



### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **1. Premium Rate Review**

Based on our audit, we have accepted the Plan's rating of the FEHBP for contract years 2009 through 2011, and have no questioned costs.

#### **2. Inappropriate Benefit Loadings**

In contract years 2009 and 2010, the Plan applied a medical management fee to the FEHBP rates that was greater than the amount supported by the Plan's documentation. Additionally, in contract years 2010 and 2011, the Plan applied an autism loading to the FEHBP rates. We adjusted the medical management loading in 2009 and 2010 and removed the autism loading in contract years 2010 and 2011.

Medical management expenses are the operational costs incurred by the Plan and allocated to all product lines given various cost drivers associated with each department. The operational costs and cost drivers generate a per-member per-month (PMPM) charge per product line. The PMPM is applied to each group as a claims amount by taking the PMPM times each group's member months.

Our review of the operation costs incurred by the Plan and their methodology in allocating the costs to each product line show that the Plan estimated the percent of complex case enrollment and did not equitably allocate the adjustment in 2009 and 2010. We adjusted the complex case enrollment percentages by taking the Health Maintenance Organization member months and dividing by the total fully insured member months in 2009 and 2010. This adjustment lowered the medical management PMPM amount from [REDACTED] to [REDACTED] in contract year 2009, and from \$ [REDACTED] to [REDACTED], in contract year 2010.

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

The medical management expense in 2009 and 2010 was overstated by the Plan and was adjusted based on our analysis of the support. Additionally, the loading for ASD was deemed inappropriate and removed from our audited FEHBP rates in contract years 2010 and 2011. However, since the FEHBP received a market rate after the adjustments were made, the inappropriate loadings had no cost impact.

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

The Plan states that they have modified the allocation of medical management costs for 2011 and all years going forward by using a member month basis, which is a verifiable allocation basis. Also, the autism loading has been removed from all ratings for 2012 and going forward.

**OIG's Comments:**

We accept the Plan's statement that they will exclude the ASD loading in the FEHBP rates going forward. Additionally, we accept the Plan's response to the medical management finding. We will verify that the medical management fee is correctly allocated, and the loadings are excluded during subsequent OIG audits.

**Recommendation 1**

We recommend that the contracting officer require the Plan to allocate medical management costs by using verifiable allocation methods, such as member months, rather than estimates, and exclude the autism loading in the FEHBP rate developments going forward.

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

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

██████████, Auditor-In-Charge

██████████, Lead Auditor

██████████, Lead Auditor

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██████████ Chief

██████████, Senior Team Leader

# APPENDIX



August 31, 2012

RECEIVED SEP 05 2012

[REDACTED]  
Chief, Community-Rated Audits Division  
U.S. Office of Personnel Management  
Office of the Inspector General  
800 Cranberry Woods Drive  
Cranberry Township, PA 16066

Re: Draft Report of HealthAmerica Pennsylvania, Inc. – Pittsburgh, Pennsylvania area under FEHBP 2009 through 2011

Dear [REDACTED]

This letter responds to your correspondence of August 7, 2012 enclosing the draft report ("Draft Report") detailing the results of the Office of Inspector General's ("OIG") audit of the Federal Employees Health Benefits Plan ("FEHBP") operations at HealthAmerica Pennsylvania, Inc. – Pittsburgh, Pennsylvania Area ("the Plan") for contract years 2009 through 2011. Per your request, we are also enclosing a CD with our comments along with this hard copy. We appreciate the opportunity to address these points prior to issuance of the final audit report by the OIG.

We have reviewed the Draft Report provided by your office including the recommendation made on page 2. In response to that recommendation, the Plan has modified the allocation of medical management costs for 2011 and all years going forward by using a member month basis, which is a verifiable allocation basis. Also, the autism loading has been removed from all ratings for 2012 and going forward.

We acknowledge that the audit resulted in no cost impact to the FEHBP rates.

If you have any further questions, feel free to contact me at [REDACTED] or [REDACTED], Manager, Large Group Underwriting, at [REDACTED]

Sincerely,

A handwritten signature in cursive script that reads 'David Fields'.

David Fields  
Chief Executive Officer