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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  
UNITED HEALTHCARE BENEFITS OF TEXAS, INC.**

**Report Number 1C-GF-00-15-002**

**November 18, 2015**

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# EXECUTIVE SUMMARY

## *Audit of the Federal Employees Health Benefits Program Operations at United Healthcare Benefits of Texas, Inc.*

Report No. 1C-GF-00-15-002

November 18, 2015

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

The objectives of the audit were to determine if United Healthcare Benefits of Texas, Inc. (Plan) offered the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current pricing data, and that the rates were equivalent to the Plan's Similarly Sized Subscriber Groups, as provided in Federal Health Employees Acquisition Regulation 1652.215-70(a). 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 CS 1937, the Office of the Inspector General (OIG) completed a performance audit of the FEHBP's rates offered for contract year 2012. Our audit was conducted from January 12, 2015 through January 23, 2015 at the Plan's office in Cypress, California.



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

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

In contract year 2012, 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 the Office of Personnel Management's (OPM) contracting office were able to provide documentation that requested coverage of this specific benefit. Since penile prosthesis is considered an internal prosthetic and is included under the internal prosthetic coverage for all other groups, we disallowed the charge.

Additionally, we found that the Plan did not maintain original source documentation to support its benefit loadings of the FEHBP and Similarly Sized Subscriber Groups (SSSGs), as required by Section 3.4 of its FEHBP contract. These loadings were removed from the FEHBP rate calculation. Due to other adjustments to our audited rates, there was no material cost impact to the FEHBP rates in contract year 2012.

# ABBREVIATIONS

<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</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 United Healthcare Benefits of Texas, Inc.</b>
<b>SSSG</b>	<b>Similarly Sized Subscriber Group</b>

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# I. BACKGROUND

This final report details the findings, conclusions, and recommendations resulting from our audit of the Federal Employees Health Benefits Program (FEHBP) operations at United Healthcare Benefits of Texas, Inc. (Plan). The audit covered contract year 2012 and was conducted at the Plan's office in Cypress, California.

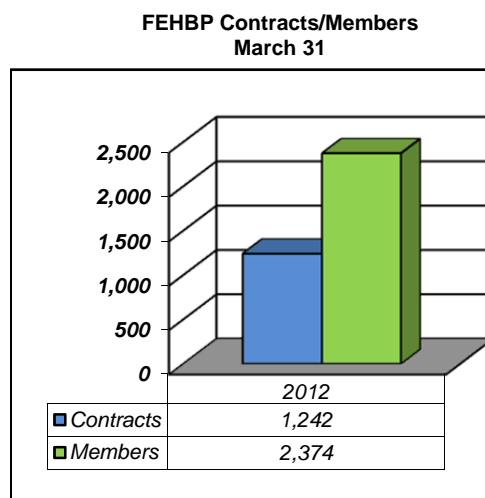
The audit was conducted pursuant to FEHBP contract CS 1937; 5 United States Code Chapter 89; and 5 Code of Federal Regulations Chapter 1, Part 890. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

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 and is administered by OPM's Healthcare and Insurance Office. Health insurance coverage is provided through contracts with health insurance carriers that 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 premium rate that is equivalent to the best rate given 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 1983 and

provides health benefits to FEHBP members in the San Antonio area of Texas. The last audit conducted by our office was a full scope audit and covered contract years 2009 through 2011. All issues identified during that audit have been resolved.

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

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

The primary objectives of the audit were to determine if the FEHBP premium rates were developed using complete, accurate and current data, and were equivalent to the Plan's Similarly Sized Subscriber Groups (SSSG), as provided in Federal Employees Health Benefits Acquisition Regulation (FEHBAR) 1652.215-70(a). 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 \$15.6 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 SSSGs were selected;
- the rates charged to the FEHBP were developed using complete, accurate and current data, and were equivalent to the best rate given 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 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 in January 2015. Additional audit work was completed at our office in Jacksonville, Florida.

### **Methodology**

We examined the Plan's Federal rate submission and related documents as a basis for validating the Certificate of Accurate Pricing. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the FEHBP rates were reasonable and equitable. Finally, we used the contract, the FEHBAR, 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

### Procedural

In contract year 2012, 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 the Office of Personnel Management's (OPM) contracting office was able to provide documentation that requested coverage for this specific benefit. Since this implant is considered to be an internal prosthetic and is included under the internal prosthetic coverage for all other groups, we disallowed the benefit loading.

Additionally, the Plan did not provide sufficient documentation to support its calculation of the FEHBP and SSSG medical and pharmacy benefit adjustment factors. Due to the lack of support, we could not verify that the loadings to the FEHBP's rates were reasonable and equitable.

We calculated our audited FEHBP rates by reducing the benefit adjustment factors to [REDACTED] and removing the internal prosthetic charges related to penile implants. Due to other adjustments to our audited rates however, there was no material cost impact in contract year 2012. Consequently, we are not questioning any dollars related to this finding in our final report.

#### Plan's Response:

The Plan acknowledges that the FEHBP was inappropriately charged for internal prosthetics related to penile implants. This issue was first addressed during the audit of United Healthcare of California (report number 1C-CY-00-13-029). The Plan states, "the earliest opportunity... to remove the penile prosthesis benefit from [FEHBP] coverage... was the 2014 Rate Reconciliation which was filed...in April 2014." Furthermore, "The Plan [has taken] appropriate steps to rectify the issue addressed by OPM relative to penile prosthesis benefit and no further action is required by the Plan."

The Plan disagrees with the insufficient documentation finding and states, "the Plan provided the calculation of all factors utilized in the rate development for contract year 2012."

#### OIG Comment:

The OIG acknowledges that the Plan has taken corrective actions by removing the penile prosthetics charges starting with the 2014 reconciliations. The OIG will verify whether the loading continued to be excluded from future reconciliations when we perform future audits.

However, the OIG maintains that the Plan did not provide documentation for all components of its medical and pharmacy benefit adjustment factors as requested by OIG auditors. Specifically, the auditors requested documentation to support standard or base per member per month (PMPM) costs as well as group specific benefit package PMPM costs. These figures are the starting point of the Plan's benefit adjustment calculation and are critical in determining whether the loading to the FEHBP is equitable. After multiple requests, neither the standard/base PMPM nor group specific PMPM was provided.

### **Recommendation 1**

We recommend that in the course of developing future year's FEHBP benefit loadings, that the Plan implement internal controls to ensure the FEHBP is not charged for additional loadings that are already included as part of our package of benefits.

### **Recommendation 2**

We recommend that the contracting officer require the Plan to provide sufficient documentation to support its calculation of the FEHBP and SSSG medical and pharmacy benefit adjustment factors.

## **2. Records Retention**

### **Procedural**

The Plan did not comply with the records retention clause of its FEHBP contract. After several requests, the Plan did not provide original source documentation to support the benefit adjustments applied to the FEHBP and the SSSGs rates in contract year 2012. Although we ultimately developed audited rates, the FEHBP contract requires the Plan to retain and make available all records supporting its rate submissions for a period of six years after the end of the contract term to which records relate.

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

The Plan disagrees that it did not comply with the records retention clause of its FEHBP contract and that they have maintained all related documentation. Furthermore, the Plan states, "[we] strongly disagree that any penalty is due OPM for lack of compliance with the records retention clause...."

**OIG Comment:**

The Plan was unable to provide any additional documentation or argument that would negate the record retention procedural findings. The OIG cannot express an opinion on the validity of the Plan's benefit change factors applied to the FEHBP and SSSGs in contract year 2012 because requested supporting documentation was not provided.

**Recommendation 3**

We recommend that the contracting officer assess the maximum penalty allowed in the contract between OPM and the Plan for the Plan's breach of the records retention clause.

**Recommendation 4**

We recommend that the contracting officer inform the Plan that it should fully comply with the records retention provisions of the contract by maintaining all pertinent rating documents that the Plan uses in developing actual rates for the FEHBP and the groups closest in size to the FEHBP for each unaudited year covered under the clause.

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## COMMUNITY-RATED AUDITS GROUP

██████████, Auditor-in-Charge

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██████████, Senior Team Leader

██████████, Group Chief

June 12, 2015

██████████ U.S.  
Office of Personnel Management 800  
Cranberry Woods Drive  
Suite 270  
Cranberry Township, Pennsylvania 16066

**RE: Comments to the Draft Audit Report on UnitedHealthcare Benefits of Texas, Inc., Plan Code GF, Report No. 1C-GF-00-15-002**

Dear ██████████:

On May 13, 2015, the United States Office of Personnel Management, Office of the Inspector General ("OPM/OIG") submitted to the Plan a "Draft Report" (1C-GF-00-15-002) ("Draft Report"), detailing the results of its audit of the Federal Employees Health Benefits Program ("FEHBP") operations of UnitedHealthcare Benefits of Texas, Inc. (GF) for contract year 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.

**Premium Rates**

**1. Inappropriate Benefit Loading**

**Deleted by OIG**  
**Not Relevant to the Audit Report**

First, with respect to the Penile Prosthesis benefit the Plan acknowledges that this issue was first addressed by the Office of Personnel Management with the Plan during the audit of the PacifiCare of California/UHC of California (rate code CY) for plan years 2010-2012.

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**Not Relevant to the Audit Report**

Due to the timing of the audit of the 2010 - 2012 CY Rate Code, the earliest opportunity the Plan had to remove the penile prosthesis benefit from coverage (as well as remove the associated pricing) was the 2014 Rate Reconciliation which was filed with OPM in April of 2014. At that time, the Plan indicated that based on the audit the Plan was changing the benefit for both rate codes CY and GF due to the fact that these were the only two rate codes that were impacted by this benefit. Please refer to **Attachment I -Cover letter for 2014 Rate Reconciliation.**

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Not Relevant to the Audit Report

The Plan did take the appropriate steps to rectify the issue addressed by OPM relative to the penile prosthesis benefit and no further action is required by the Plan.

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Not Relevant to the Audit Report

The Plan disagrees with the second statement by OPM of *"...the Plan did not provide sufficient documentation to support its calculation of the FEHBP and SSSG medical and pharmacy benefit adjustment factors."*

The Plan provided the calculation of all factors utilized in the rate development for the contract year 2012 for UnitedHealthcare Benefits of Texas, Inc. (GF). First, at the time of the FEHBP 2012 Rate Reconciliation submission which occurred in April of 2012, the Plan furnished the calculation of the factors used in rate development for the FEHBP and the SSSGs (Refer to the following attachments: **Attachment II - FEHBP Factors, Attachment III - SSSG #1 - [REDACTED] Factors, and Attachment IV - SSSG #2 - [REDACTED] Factors**), Second, the Plan furnished a copy of the entire 2012 FEHBP Rate Reconciliation as part of the pre-audit materials provided prior to the onsite portion of the audit (this included Attachments II - IV).

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Not Relevant to the Audit Report

The Plan strongly asserts that the methodology utilized for the FEHBP and SSSG rate development is actuarially sound, consistent with the standard rating practice of the Plan and is fully supported by documentation provided to OPM/OIG.

## **2. Record Retention**

*In the Draft Report, it states "The Plan did not comply with the records retention clause of its FEHBP contract..."*

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**Not Relevant to the Audit Report**

The Plan disagrees with this statement. The Plan does maintain all records supporting the rate development that is submitted to OPM. The issue in question relates to the actuarial starting point from which all relativities were developed. The Plan explained on several occasions that the starting point from which all plans' relative values are established is developed by the Plan's actuarial staff. The same starting point is utilized to illustrate the relative value of the plan of benefits offered to the FEHBP and the SSSGs. The Plan further explained to the auditor that the method of relative values is a standard actuarial rating method and that as long as all plans are compared to the same starting plan, the relative values between the plans is a valid calculation method to determine how one plan relates to another plan offering.

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**Not Relevant to the Audit Report**

In addition, the Plan finds that there is no material difference between the Plan's methodology and the method employed by OPM/OIG to develop their version of the audited rates. This would seem to indicate that the Plan's methodology is sound as the OPM/OIG could not demonstrate that the Plan's method was inaccurate.

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**Not Relevant to the Audit Report**

The Plan strongly disagrees with the assertion that any penalty is due OPM for lack of compliance with the records retention clause of the Plan's contract with OPM. The Plan has maintained and provided documentation to support the rate development for the contract year 2012 in the scope of the audit which is the subject of the Draft Report. Further, the Plan maintains all documentation that supports the rating development for each of the contract years as a participant under the FEHBP as required by legislation and contractual provisions.

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**Not Relevant to the Audit Report**

## **CONCLUSION**

In conclusion, the Plan has reviewed OPM/OIG's findings for contract year 2012, presented in the Draft Report 1C-GF-00-15-002. Based on our review of the information, the Plan has determined that there was not an overpayment by FEHBP and that no further action is required by the Plan.

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,

A handwritten signature in black ink, appearing to read "Keith Nygard". The signature is fluid and cursive, with the first name "Keith" and the last name "Nygard" clearly distinguishable.

Keith E. Nygard  
Director







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