Final Audit Report

Subject:

Audit of the Federal Employees Health Benefits Program Operations at HealthAmerica Pennsylvania, Inc.

Report No. 1C-SW-00-12-025

Date: November 1, 2012

-- 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
HealthAmerica Pennsylvania, Inc.
Contract Number CS 2078-A - Plan Code SW
Harrisburg, Pennsylvania

Report No. 1C-SW-00-12-025  Date: November 1, 2012

Michael R. Esser
Assistant Inspector General for Audits

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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 2010 and 2011, and was conducted at the Plan’s office in Harrisburg, Pennsylvania. Based on our audit of contract years 2010 and 2011, we have no questioned costs. However, we found the Plan applied inappropriate loadings to the FEHBP rates in both contract years.

In contract year 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 year 2010, the Plan applied autism and mental health parity loadings to the FEHBP rates. In contract year 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 and removed the autism and mental health parity loadings in 2010, as well as removed the autism loading in 2011. Due to other adjustments to our audited FEHBP rates, there was no cost impact to the FEHBP rates in contract years 2010 and 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 2010 and 2011, and was conducted at the Plan’s office in Harrisburg, 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 for each contract year audited. The Plan has participated in the FEHBP since 2005 and provides health benefits to FEHBP members in the Central Pennsylvania area. The last audit of the Plan conducted by our office was in 2009. 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 2010 and 2011. For these contract years, the FEHBP paid approximately $49.5 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 Harrisburg, Pennsylvania, during January and February 2012. Additional audit work was completed at our offices in Washington, D.C.; 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.

To test the Plan’s compliance with the FEHBP health benefit provisions regarding coordination of benefits, we selected and reviewed a judgmental sample of claims for contract years 2010 and 2011. This audit included a 2010 sample of 23 claims from 838,595 claim lines and a 2011 sample of 15 claims from 649,347 claim lines. The results from the samples were not projected to the population as a whole.
III. AUDIT FINDINGS AND RECOMMENDTIONS

1. Premium Rate Review

Based on our audit, we have accepted the Plan’s rating of the FEHBP for contract years 2010 and 2011, and have no questioned costs.

2. Inappropriate Benefit Loadings

In contract year 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 year 2010, the Plan applied an autism loading and mental health parity loading to the FEHBP rate development. In contract year 2011, the Plan applied an autism loading to the FEHBP rate development. We adjusted the medical management fee for contract year 2010, and removed the loadings from both contract years.

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 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 2010. This adjustment lowered the medical management PMPM amount from $ to $, in contract year 2010.

The mental health parity loading is related to the Mental Health Parity and Addiction Equity Act that became effective on January 1, 2010. However, the FEHBP has had mental health parity as a benefit for several years and the cost for this benefit is already reflected in the claims experience used to develop the FEHBP rates. Therefore, this additional loading is unnecessary.

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.

As a result, these loadings were deemed inappropriate and removed from our audited FEHBP rates. However, due to other audit adjustments to our FEHBP rates, the medical management fee adjustment and removal of 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 going forward.

Additionally, the Plan agrees that the medical management expenses were incorrectly allocated in 2010.

**OIG’s Comments:**

We accept the Plan’s statement that they will exclude the ASD and mental health parity loadings 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 autism and mental health parity loadings in the FEHBP rate developments going forward.
IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[Blank Space], Auditor-in-Charge

[Blank Space], Auditor

[Blank Space], Auditor

[Blank Space], Chief

[Blank Space], Senior Team Leader
July 26, 2012

U.S. Office of Personnel Management
Office of the Inspector General --Attn: [Redacted]
800 Cranberry Woods Drive
Suite 270
Cranberry Township, PA 16066

RE: Draft Audit Report 1C-SW-00-12-025, Contract Number CS 2078-A – Plan Code SW

Dear [Redacted]:

This letter and the enclosed attachments are the comments of HealthAmerica Pennsylvania, Inc. ("the Plan") regarding Final Audit Report 1C-SW-00-12-025 ("the Report") on operations of the Plan under Federal Employees Health Benefits Program ("FEHBP") Contract Number CS 2078-A, Plan Code SW, for contract years 2010 through 2011.

Finding

"We recommend that the contracting officer require the plan to exclude mental health parity and autism loadings in the FEHBP rate developments going forward. As a result, these loadings were deemed inappropriate and removed from our audited FEHBP rate. However, due to other audit adjustments to our FEHBP rates, this removal had no cost impact to the FEHBP rates."

Response

We agree to take this action for our Plan site in 2013, as our rates for 2012 have already been submitted and include this loading. For 2012, there is an adjustment for the loading.

Conclusion

If you have any questions or require additional information during your review of the Plan's response, please contact me, [Redacted], Controller, or [Redacted], Director of Underwriting. Please continue to address your correspondence to [Redacted], she was unavailable at the time of response.

Sincerely,

[Redacted]
Controller
Coventry Health Care, HealthAmerica

cc: [Redacted], Chief Financial Officer
[Redacted], Vice President Business Development Legal, Coventry Health Care
RE: Procedural Finding for Plan Code SW

Sent: Wednesday, September 05, 2012 4:49 PM
To: 
Cc: 

Hi [Name],

Thanks for providing the updated information regarding the final report for the plan code SW. Thanks for also providing the procedural finding that was not in the previously reporting in the draft report. I do not have any further response to that outside of agreeing to the procedural finding.

Senior Underwriter
HealthAmerica HealthAssurance

From: [Name]
Sent: Wednesday, September 05, 2012 1:47 PM
To: 
Cc: 
Subject: Procedural Finding for Plan Code SW

Hi [Name],

We are in the process of completing the final report for plan code SW and we will be including the following procedural finding that was not previously reported in the draft report:

"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 2010. We adjusted the complex case enrollment percentages by taking the Health Maintenance Organization member months and dividing by the total fully insured
APPENDIX

RE: Procedural Finding for Plan Code SW

member months in 2010. This adjustment lowered the medical management PMPM amount from $ to $ in contract year 2010.

The medical management expense in 2010 was overstated by the Plan and was adjusted based on our analysis of the support. Due to other audit adjustments to our FEHBP rates, this loading had no cost impact to the FEHBP rates."

Please review the finding above. If you would like to respond to this finding, please do so by e-mail by September 11, 2012.

Thank you for your time.

Best Regards,

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