



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 Group Health Cooperative

Report No. 1C-VR-00-11-064

Date: June 13, 2012

-- CAUTION --

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Group Health Cooperative
Contract Number CS 1043 - Plan Code VR
Spokane, Washington**

Report No. 1C-VR-00-11-064

Date: June 13, 2012

A handwritten signature in black ink, appearing to read "Michael R. Esser".

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

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Group Health Cooperative
Contract Number CS 1043 - Plan Code VR
Spokane, Washington**

Report No. 1C-VR-00-11-064

Date: June 13, 2012

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Cooperative (Plan). The audit covered contract years 2008 and 2009, and was conducted at the Plan's office in Spokane, Washington.

Based on our audit of contract years 2008 and 2009, we have no questioned costs. However, we found that the Plan's process for selecting Similarly Sized Subscriber Groups (SSSG) erroneously excluded groups from the Plan's subsidiary, Group Health Options.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Group Health Cooperative (Plan). The audit covered contract years 2008 and 2009 and was conducted at the Plan's office in Spokane, Washington. The audit was conducted pursuant to the provisions of Contract CS 1043; 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.

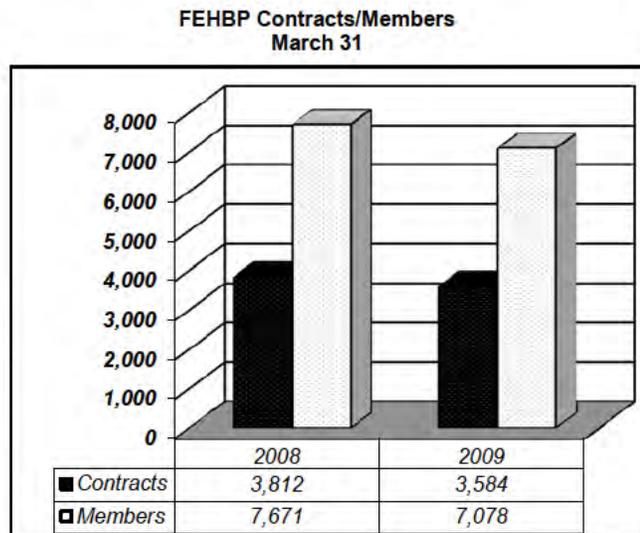
Background

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 1960 and provides health benefits to FEHBP members in Eastern and Central Washington and Northern Idaho. The last audit of the Plan conducted by our office was in 2008. There were no issues identified during that audit.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

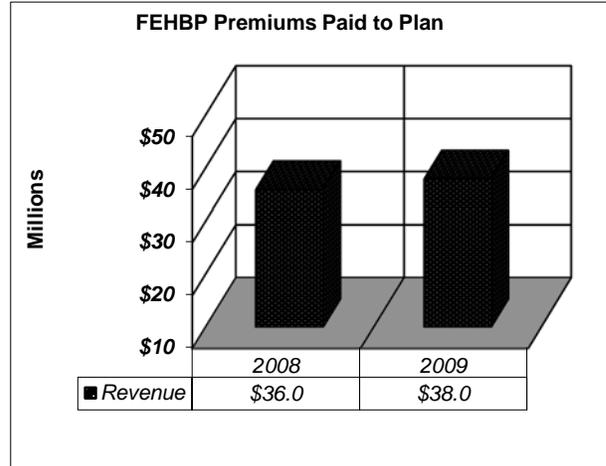
Objectives

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 years 2008 and 2009. For these contract years, the FEHBP paid approximately \$74.0 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 Spokane, Washington during September 2011. Additional audit work was completed at our office in 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 Group Health Cooperative's (Plan) rating of the Federal Employees Health Benefits Program (FEHBP) for contract years 2008 and 2009 and have no questioned costs.

2. Incorrect SSSG Selection

The Plan did not select the correct Similarly Sized Subscriber Groups (SSSGs) for comparison to the FEHBP for all years audited. Prior to our audit, the Plan submitted revised FEHBP rate reconciliations in which all groups under the Plan's subsidiary, Group Health Options (GHO) were eliminated from SSSG consideration. In the Plan's original reconciliations, GHO groups were correctly included in the SSSG selection process and selected as SSSGs by the Plan. Our review determined that GHO groups do not meet the exclusion criteria set forth in the OPM rate instructions. Accordingly, our SSSG selection process included GHO groups as potential SSSGs. Although the Plan did not select the correct SSSGs, this did not have a negative impact on the FEHBP rates in 2008 and 2009.

Plan's Comments (see Appendix)

The Plan disagrees with the audit finding and recommendation and refers the OIG to its May 28, 2010, response to similar findings in OIG Audit Report 1C-54-00-09-048. The Plan continues to maintain that only customers of the Plan are eligible to be potential SSSGs. The Plan's May 28, 2010 response relayed the following:

- (a) GHO groups cannot be an SSSG because these groups are not a customer group of the Plan but are a customer of GHO, which is a wholly-owned subsidiary of the Plan.
- (b) Only groups that contract with "the Carrier" are eligible for SSSG consideration.
- (c) The Plan asserts that the definition of "Carrier" is the entity contracting with the FEHBP and does not include the subsidiaries and affiliates of the entity.

OIG's Response to the Plan's Comments

We disagree with the Plan's response. Our review, conducted during this and the prior audit of plan code 54, determined that GHO groups did not meet the exclusion criteria set forth in the OPM rate instructions for separate lines of business. Specifically, GHO did not meet the requirement that a separate line of business have its own workforce and management staff and separate financial statements. Therefore all GHO groups, if meeting the SSSG criteria, can be considered for SSSG selection.

Recommendation 1

We recommend that the contracting officer require the Plan to follow all rules and rating instructions regarding the requirement to correctly identify and select SSSGs.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-in-Charge

██████████, Auditor

██████████., Chief

██████████, Senior Team Leader



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April 20, 2012

[REDACTED]
Chief, Community-Related Audits Group
U.S. Office of Personnel Management
Office of the Inspector General
800 Cranberry Woods Drive, Suite 130
Cranberry Township, PA 16066

Subject: Group Health Cooperative
Draft Report No. 1C-VR-00-11-064

Dear [REDACTED]

Group Health Cooperative ("GHC") received the Office of Inspector General ("OIG") draft audit report No. 1C-VR-00-11-064 ("Draft Report"). GHC disagrees with the audit findings and recommendation outlined in the Draft Report and respectfully refers the OIG to GHC's response to similar findings in the OIG Draft Audit Report 1C-54-00-09-048, dated March 2, 2010. GHC's response, addressed to [REDACTED] was dated May 28, 2010. As our May 28, 2010 response outlines, GHC maintains that only customers of GHC are eligible to be potential similarly sized subscriber groups.

If you have any questions, please feel free to contact me.



Director, Complex Accounts