



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 SelectHealth**

**Report No. 1C-SF-00-14-014**

**Date: April 10, 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  
SelectHealth  
Contract Number CS 2925 - Plan Code SF  
Murray, Utah**

Report No. 1C-SF-00-14-014

Date: April 10, 2014



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## EXECUTIVE SUMMARY

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**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
SelectHealth  
Contract Number CS 2925 - Plan Code SF  
Murray, Utah**

**Report No. 1C-SF-00-14-014**

**Date: April 10, 2014**

The Office of the Inspector General performed a rate buildup audit (RBA) of the Federal Employees Health Benefits Program (FEHBP) operations at SelectHealth (Plan). The Plan elected to participate in the 2012 Medical Loss Ratio (MLR) Pilot Program offered to FEHBP carriers. The RBA covered the 2012 FEHBP premium rate development, and was conducted at the Plan's office in Murray, Utah. We found that the FEHBP premium rates were developed using accurate, complete and current data, and in accordance with the Plan's standard rating methodology. We also found that the FEHBP premium rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract year 2012.

# CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. RESULTS OF THE AUDIT .....	5
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	6

# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

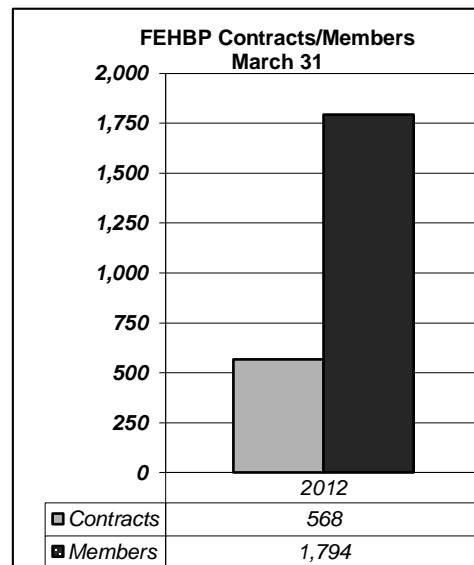
We completed a rate buildup audit (RBA) of the Federal Employees Health Benefits Program (FEHBP) operations at SelectHealth (Plan). The Plan elected to participate in the 2012 Medical Loss Ratio (MLR) Pilot Program offered to FEHBP carriers. The RBA covered the 2012 FEHBP premium rate development, and was conducted at the Plan's office in Murray, Utah. The RBA was conducted pursuant to the provisions of Contract CS 2925; 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.

Under OPM's MLR methodology, the premium rates charged to the FEHBP are to be developed in accordance with OPM Rules and Regulations and the Plan's state-filed standard rating methodology (or if the rating method does not require state filing, the Plan's documented and established rating methodology). All FEHBP pricing data are to be supported by accurate, complete and current documentation. 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 above 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 2011, and provides health benefits to FEHBP members in Northern and Southern Utah. This was our first audit of this Plan.

The preliminary results of this RBA were discussed with Plan officials at an exit conference and in subsequent correspondence. Since the RBA concluded that the Plan's rating of the FEHBP was in accordance with its standard rating methodology, as well as applicable laws, regulations, and OPM's Rate Instructions to Community-Rated Carriers (rate instructions), a draft report was not issued.

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

### **Objectives**

The primary objective of this performance audit is to determine whether the Plan is in compliance with the provisions of its contract and the laws and regulations governing the FEHBP related to premium rate development. Specifically, we verified that the plan offered a fair premium rate, based on its underwriting guidelines, rating methodology and OPM rules and regulations. 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 the FEHBP premium rate development charged for contract year 2012. The RBA did not include tests of the Plan's MLR calculations and will remain subject to future audit. For this year, the FEHBP paid approximately \$8.0 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 rates charged the FEHBP are developed in accordance with the Plan's standard rating methodology and the claims, factors, trends, and other related adjustments are supported by complete, accurate and current source documentation.

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 Murray, Utah during November 2013. Additional audit work was completed at our office in Cranberry Township, Pennsylvania.

### **Methodology**

We examined the Plan's standard rating methodology and practices as a basis for validating its federal rate submission and related documents. In addition, we verified that the factors, trends, and other related adjustments used to determine the FEHBP premium rates were supported by accurate, complete and current source data. Further, we also examined claim payments to verify that the pricing data used to develop the FEHBP rates was accurate, complete and current. 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. RESULTS OF THE AUDIT**

Our audit showed that the pricing data used to develop and support the FEHBP premium rates were accurate, complete and current, and was in accordance with applicable laws, regulations, rate instructions and the Plan's standard rating methodology for contract year 2012. Consequently, the audit did not identify any questioned costs and no corrective action is necessary.

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

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

██████████, Auditor-in-Charge

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██████████ Chief

██████████ Senior Team Leader