



**U.S. OFFICE OF PERSONNEL MANAGEMENT
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**AUDIT OF THE FEDERAL EMPLOYEES HEALTH
BENEFITS PROGRAM OPERATIONS AT
UNITED HEALTHCARE OF THE MIDWEST, INC.**

**Report Number 1C-B9-00-15-029
October 2, 2015**

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EXECUTIVE SUMMARY

Audit of the Federal Employees Health Benefits Program Operations at United Healthcare of the Midwest, Inc.

Report No. 1C-B9-00-15-029

October 2, 2015

Why Did We Conduct the Audit?

The primary objectives of our audit were to determine if United Healthcare of the Midwest, Inc. (Plan) offered the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current data and that the loadings applied to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine if the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

What Did We Audit?

Under contract 2907, the Office of the Inspector General completed a performance audit of the FEHBP's rates offered for contract year 2013. Our audit fieldwork was conducted from March 30, 2015 through April 10, 2015 at the Plan's office in Cypress, California.

What Did We Find?

We determined that the 2013 FEHBP rates were developed by the Plan in accordance with applicable laws, regulations, and the U.S. Office of Personnel Management's Rate Instructions to Community-Rated Carriers. We therefore did not issue a draft report and are not making any recommendations.



Michael R. Esser
*Assistant Inspector General
for Audits*

ABBREVIATIONS

FEHBP	Federal Employees Health Benefits Program
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
MLR	Medical Loss Ratio
Plan	United Healthcare of the Midwest, Inc.
U.S.C.	United States Code

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I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at United Healthcare of the Midwest, Inc. (Plan). The audit covered contract year 2013, and was conducted at the Plan's office in Cypress, California.

The audit was conducted pursuant to FEHBP contract CS 2907; 5 U.S.C. 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.

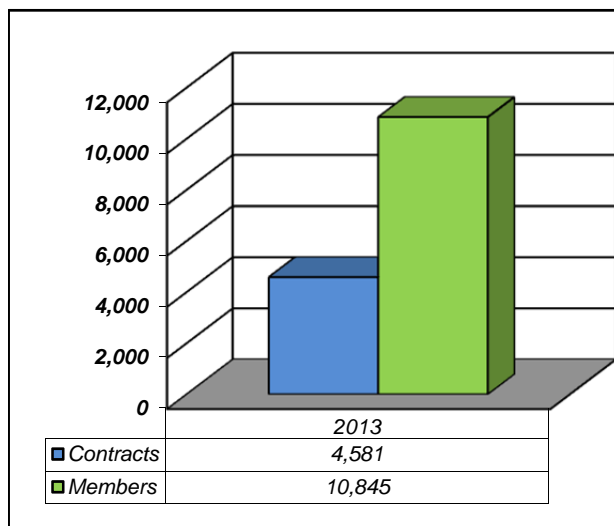
Community-rated carriers participating in the FEHBP are subject to various Federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., 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 chart to the right shows the number of FEHBP contracts and members reported by the Plan as of March 31 for the contract year audited.

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 Plan has participated in the FEHBP since 2006 and provides health benefits to FEHBP members in St. Louis, Missouri. The last full scope audit conducted by our office of the Plan covered contract years 2010 through 2012. There were no issues identified during that audit.

FEHBP Contracts/Members
March 31



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

II. OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The primary objective of this performance audit was to determine whether the Plan was in compliance with the provisions of its contract and the laws and regulations governing the FEHBP. Specifically, we verified whether the Plan developed the FEHBP premium rates using complete, accurate and current data and any loadings applied to the FEHBP rates were reasonable and equitable.

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 premium rates offered by the Plan for contract year 2013. For this year, the FEHBP paid approximately \$60 million in premiums to the Plan. No audit review was performed on the Plan's contract year 2013 Medical Loss Ratio (MLR) calculation. The OIG reserves the right to audit the Plan's 2013 MLR calculation in future years.

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 to 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; 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 from March 30, 2015 through April 10, 2015 at the Plan's office in Cypress, California. Additional audit work was completed at our office in Cranberry Township, Pennsylvania.

Methodology

We examined the rate build-up of the Plan's Federal rate submission and related documents as a basis for validating the Plan's standard rating methodology. We verified that the factors, trends, and other related adjustments used to determine the FEHBP premium rate(s) were sufficiently supported by source documentation. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete and valid. 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 objective.

III. RESULTS OF THE AUDIT

Our audit showed that the Plan's rating of the FEHBP was in accordance with applicable laws, regulations, and the rate instructions for contract year 2013. 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

██████████, Senior Team Leader

██████████, Group Chief



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