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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  
KAISER FOUNDATION HEALTH PLAN OF THE  
NORTHWEST**

**Report Number 1C-57-00-16-006**

**June 10, 2016**

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# EXECUTIVE SUMMARY

## *Audit of the Federal Employees Health Benefits Program Operations at Kaiser Foundation Health Plan of the Northwest*

Report No. 1C-57-00-16-006

June 10, 2016

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

The primary objective of the audit was to determine if Kaiser Health Plan of the Northwest (Plan) was in compliance with the provisions of its contract and the laws and regulations governing the Federal Employees Health Benefits Program (FEHBP). We verified whether the Plan met the Medical Loss Ratio (MLR) requirements established by the U.S. Office of Personnel Management (OPM). We also verified whether the Plan developed the FEHBP premium rates using complete, accurate and current data.

### **What Did We Audit?**

Under Contract CS 1047, the Office of the Inspector General performed an audit of the FEHBP operations at the Plan. Our performance audit covered the Plan's 2013 FEHBP premium rate build-up and MLR submission. Our audit fieldwork was conducted from November 2, 2015 through February 3, 2016, at the Plan's office in Portland, Oregon, and in our OIG offices.



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

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

This report identifies that the Plan's 2013 FEHBP MLR rebate was filed with OPM in accordance with applicable laws, regulations, and the U.S. Office of Personnel Management's Rate Instructions to Community-Rated Carriers for the year audited. Additionally, the audit showed that the rating documentation provided was sufficient to support the 2013 FEHBP premium rates. We therefore did not issue a draft report and are not making any recommendations.

# 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>MLR</b>	<b>Medical Loss Ratio</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>Kaiser Foundation Health Plan of the Northwest</b>
<b>SSSG</b>	<b>Similarly-Sized Subscriber Group</b>
<b>TCR</b>	<b>Traditional Community Rating</b>

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# I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at Kaiser Health Plan of the Northwest (Plan). The audit was conducted pursuant to the provisions of Contract CS 1047; 5 United States Code (U.S.C.) Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit covered contract year 2013, and was conducted at the Plan's office in Portland, Oregon.

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 the U.S. Office of Personnel Management's (OPM) 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.

In April 2012, OPM issued a final rule establishing an FEHBP-specific Medical Loss Ratio (MLR) requirement to replace the similarly sized subscriber group (SSSG) comparison requirement for most community-rated FEHBP carriers (77 FR 19522). MLR is the proportion of FEHBP premiums collected by a carrier that is spent on clinical services and quality health improvements. The MLR for each carrier is calculated by dividing the amount of dollars spent for FEHBP members on clinical services and health care quality improvements by the total amount of FEHBP premiums collected in a calendar year. The MLR is important because it requires health insurers to provide consumers with value for their premium payments by limiting the percentage of premium dollars that can be spent on administrative expenses and profit. For example, an MLR threshold of 85 percent requires carriers to spend 85 cents of every premium dollar on claims and limits the amount that can be spent on administrative expenses and profit to 15 cents of every dollar.

The FEHBP-specific MLR rules are based on the MLR standards established by the Affordable Care Act (P.L. 111-148) and defined by the U.S. Department of Health and Human Services in 45 CFR Part 158. In 2012, community-rated FEHBP carriers could elect to follow the FEHBP-specific MLR requirements, instead of the SSSG requirements. Beginning in 2013, the MLR methodology was required for all community-rated carriers, except those that are state-mandated to use traditional community rating (TCR). State-mandated TCR carriers continue to be subject to the SSSG comparison rating methodology.

Starting with the pilot program in 2012 and for all non-TCR FEHBP carriers in 2013, OPM required the carriers to submit an FEHBP-specific MLR. This FEHBP-specific MLR calculation required carriers to report information related to earned premiums and expenditures in various

categories, including reimbursement for clinical services provided to enrollees, activities that improve health care quality, and all other non-claims costs. If a carrier fails to meet the FEHBP-specific MLR threshold, it must make a subsidization penalty payment to OPM within 60 days of notification of amounts due.

Community-rated carriers participating in the FEHBP are subject to various Federal, state and local laws, regulations, and ordinances. In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The Plan reported 13,422 contracts and 25,627 members as of March 31, 2013, as shown in the chart below.

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 1960 and provides health benefits to FEHBP members in the Portland and Salem, Oregon and Vancouver and Longview, Washington areas. A prior audit of the Plan covered contract years 2009 through 2011. Additionally, a rate reconciliation audit was conducted on contract year 2012. There were no issues identified in these prior audits.



The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. The audit concluded that the 2013 FEHBP MLR rebate was filed with OPM in accordance with applicable laws, regulations, and OPM Rate Instructions to Community-Rated Carriers. Additionally, the audit showed that the rating documentation provided was sufficient to support the 2013 FEHBP premium rates. Therefore, a draft report was not issued.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

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 met the MLR requirements established by OPM and paid the correct amount to the Subsidization Penalty Account, if applicable. Additional tests were also performed to determine whether the Plan was in compliance with the provisions of other applicable laws and regulations.

### 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 2013. For contract year 2013, the FEHBP paid approximately \$157.5 million in premiums to the Plan.

The Office of the Inspector General (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 FEHBP MLR calculation is accurate, complete, and valid; claims are processed accurately; appropriate allocation methods are used; and, that any other costs associated with its MLR calculation are appropriate.

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 November 2, 2015 through February 3, 2016, at the Plan's office in Portland, Oregon, and in our offices in Washington, D.C.; Cranberry Township, Pennsylvania; and Jacksonville, Florida.

### **Methodology**

We examined the Plan's MLR calculation and related documents as a basis for validating the MLR. Further, we examined claim payments and quality health expenses to verify that the cost data used to develop the MLR was accurate, complete, and valid. We also examined the methodology used by the Plan in determining the premium in the MLR calculation. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), and the rate instructions to determine the propriety of the Plan's MLR calculation.

To gain an understanding of the internal controls regarding the Plan's valuation of services administered within the Kaiser network, we reviewed the Plan's Decisions Support Services policies and procedures and interviewed Plan officials regarding the controls governing the creation of cost encounters for services. Additionally, from a universe of claim encounters greater than \$90,000 totaling \$2,916,726, we judgmentally selected the five highest dollar claims, totaling \$1,146,012. We also judgmentally selected an additional five random encounters, totaling \$605,178. For these ten encounter samples, we verified the cost centers and the plan expense allocations through review of the Plan's General Ledger accounts, system reports, the Supplemental Health Care Exhibit (SHCE), the Plan's financial statements and other documentation. The samples selected during our review were not statistically based. Consequently, the results could not be projected to the universe since it is unlikely that the results are representative of the universe taken as a whole.

To gain an understanding of the internal controls in the Plan's claims processing system, we reviewed the Plan's claims processing policies and procedures and interviewed appropriate Plan officials regarding the controls in place to ensure that claims were processed accurately. Other auditing procedures were performed as necessary to meet our audit objectives.

The claims tests performed, along with the methodology, are detailed on the next page.



## Claims Sample Selection Criteria/Methodology

Medical Claims Review Area	Universe Criteria	Universe (Number)	Universe (Dollars)	Sample Criteria and Size	Sample Type	Results Projected to the Universe?
Deceased Member 2013	Members with ages greater than or equal to 95.	20	N/A	Selected all members in universe.	N/A	N/A
Coordination of Benefits (COB) Medicare 2013	Medical claims paid for members with ages greater than or equal to 65.	432,773	\$84,240,670	Selected all claims in the universe greater than or equal to \$67,000. Resulted in the selection of 15 claims totaling \$1,497,769. Randomly selected an additional 15 claims from the universe, totaling \$3,139.	Judgmental and Random	No

We also examined the rate build-up of the Plan's 2013 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. 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.

Finally, we examined the Plan's financial information and evaluated the Plan's financial condition and ability to continue operations as a viable ongoing business concern.

### III. RESULTS OF THE AUDIT

We determined that the 2013 FEHBP MLR rebate was filed with OPM in accordance with applicable laws, regulations, and the U.S. Office of Personnel Management's Rate Instructions to Community-Rated Carriers for the year audited. Additionally, the audit showed that the rating documentation provided was sufficient to support the 2013 FEHBP premium rates. 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

██████████, Lead Auditor

██████████, Lead Auditor

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██████████, Senior Team Leader

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