



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

Final Audit Report

Subject:

**AUDIT OF THE FEDERAL EMPLOYEES DENTAL
AND VISION INSURANCE PROGRAM
OPERATIONS AS ADMINISTERED BY
THE GOVERNMENT EMPLOYEES
HOSPITAL ASSOCIATION, INC.
LEE'S SUMMIT, MISSOURI**

Report No. 1B-31-00-10-006

Date: September 27, 2010

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**Audit of the Federal Employees Dental and Vision Insurance Program
OPM-RFP-06-00060-6**

**Government Employees Hospital Association, Inc. As Administrator
Lee's Summit, Missouri**

REPORT NO. 1B-31-00-10-006

DATE: September 27, 2010

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

Michael R. Esser
Assistant Inspector General
for Audits



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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Inspector General

EXECUTIVE SUMMARY

**Audit of the Federal Employees Dental and Vision Insurance Program
OPM-RFP-06-00060-6**

**Government Employees Hospital Association, Inc. As Administrator
Lee's Summit, Missouri**

REPORT NO. 1B-31-00-10-006

DATE: September 27, 2010

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) operations at the Government Employees Hospital Association, Inc. (GEHA) located in Lee's Summit, Missouri. GEHA provides dental insurance benefits under the FEDVIP program. The audit covered the testing of application controls over claim benefit payments, administrative expenses, premiums, cash management activities, Health Insurance Portability and Accountability Act compliance, fraud and abuse policies and procedures, and subcontracts for contract years 2007 and 2008. The results of our audit showed that the dental benefits were administered in accordance with contract OPM-RFP-06-00060-6 and the FEDVIP regulations (5 CFR Part 894).

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This report details the results of our audit of the Federal Employees Dental and Vision Insurance Program (FEDVIP) as administered by the Government Employees Hospital Association, Inc. (GEHA). 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

FEDERAL EMPLOYEES DENTAL and VISION PROGRAM

The Federal Employees Dental and Vision Benefits Enhancement Act of 2004, Public Law 108-496, 118 Statute 4001, was signed into law on December 23, 2004. This law established a dental benefits and vision benefits program for Federal employees, annuitants, and their eligible family members. The following 10 FEDVIP carriers all signed contracts with OPM to provide dental or vision insurance services for a term of seven years:

Dental

- Aetna Life Insurance Company;
- Government Employees Hospital Association, Inc.;
- Metropolitan Life Insurance Company;
- United Concordia Companies, Inc.;
- Group Health, Inc.;
- CompBenefits; and
- Triple-S Salud, Inc.

Vision

- BlueCross BlueShield Association;
- United HealthCare (formerly Spectera, Inc.); and
- Vision Service Plan

The duties and responsibilities of insurance carriers participating in the FEDVIP program include the following:

1. To provide payments or benefits to an eligible individual if such individual is entitled thereto under the terms of the contract;
2. With respect to disputes regarding claims for payments or benefits under the terms of the contract –
 - a. to establish internal procedures designed to expeditiously resolve such disputes;
 - b. to establish, for disputes not resolved through procedures mentioned above, procedures for one or more alternative means of dispute resolution involving independent third-party review under appropriate circumstances by entities mutually acceptable to OPM and the carrier;

3. To make available to each individual eligible to enroll in a dental benefits plan, information on services and benefits to enable the individual to make an informed decision about electing coverage;
4. To maintain accounting records that contain such information and reports as OPM may require;
5. To furnish such reasonable reports as OPM determines to be necessary to enable it to carry out its functions; and
6. To permit OPM and representatives of the Government Accountability Office to examine such records of the carrier as may be necessary to carry out the purposes of the contract.

GEHA

GEHA administers dental benefits under the FEDVIP. Contract number OPM-RFP-06-00060-6 between OPM and GEHA was awarded on August 29, 2006. Incorporated by reference into this contract are OPM-RFP-06-00060-6 and Amendments 001, 002 and 003.

GEHA provides dental insurance benefits to Federal employees, annuitants, and their eligible family members. The contract between OPM and GEHA is for a seven year period, starting December 31, 2006, and ending December 31, 2013, with the option to renew the contract.

This was our first audit of GEHA's program operations as it relates to the FEDVIP program.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit of GEHA relating to the FEDVIP was to determine compliance with Contract OPM-RFP-06-00060-6, and the FEDVIP regulations (5 CFR Part 894). Our specific audit objectives for this audit were as follows:

Benefit Payment Application Controls

- To obtain an understanding of GEHA's claims processing system.
- To determine whether the carrier has appropriate controls/edits in place to prevent the payment of unallowable claims.
- To determine whether the carrier has a program in place to protect enrollees and the carrier's claims system from instances of fraud and abuse.
- To determine whether GEHA has proper application controls in place over its claim processing and check-writing systems to help ensure that FEDVIP-related transactions are valid, properly authorized, and completely and accurately processed.

Administrative Expenses

- To determine if administrative expenses incurred for the FEDVIP program by GEHA and reported to OPM as part of the premium determination were actual, necessary, reasonable, and allocable to the program.

Premiums

- To determine whether the FEDVIP premium cost and its relative components are derived from amounts that are allowable, allocable and reasonable to the program.

Cash Management Activities

- To determine if the FEDVIP funds are held and invested in an interest-bearing bank account separate from GEHA's other lines of business; if these funds are held until they are used to pay claims; and if the amount claimed for investment income is accurate.
- To determine if GEHA/FEDVIP has adequate outstanding check procedures in place, and to determine if it currently has any checks that have been outstanding for more than two years.

Health Insurance Portability and Accountability Act (HIPAA)

- To determine if GEHA is in compliance with HIPAA regulations.

Fraud and Abuse

- To determine how GEHA prevents instances of and protects its FEDVIP dental subscribers from fraud and abuse.
- To determine if the fraud and abuse policies and procedures implemented and followed by GEHA were sufficient to meet the contract requirements.

Subcontracts

- To determine if GEHA adheres to the subcontracting provisions stipulated within the Contract.
- To determine if there were any subcontracts where FEDVIP costs exceeded the Federal regulation threshold (\$550,000) and did not receive OPM approval.
- To determine if OPM's contracting office approved any significant changes to the original subcontract.

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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The audit covered the testing of application controls over claim benefit payments, administrative expenses, premiums, cash management activities, HIPPA compliance, fraud and abuse policies and procedures, and subcontracts for contract years 2007 and 2008. We performed our fieldwork from November 30 to December 18, 2009, at GEHA's offices in Lee's Summit, Missouri. Additional audit work was completed in our offices in Washington, D.C. after the on-site visit.

We reviewed the GEHA/FEDVIP premium reports for the years under review and found that GEHA collected premium payments of approximately \$29.5 million and \$51.5 million in 2007 and 2008 respectively. Dental claim payments during the same period amounted to approximately \$26.7 million and \$44.5 million.

In planning and conducting our audit, we obtained an understanding of GEHA/FEDVIP's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving GEHA/FEDVIP's internal control structure and its operation. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on GEHA/FEDVIP's system of internal controls taken as a whole.

In conducting our audit, we relied to varying degrees on computer-generated data provided by GEHA/FEDVIP. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve the audit objectives.

We also conducted tests to determine whether GEHA/FEDVIP had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations), and the laws and regulations governing the Program. The results of our tests indicate that, with respect to the items tested, GEHA/FEDVIP complied with all provisions of the contract and the federal procurement regulations.

METHODOLOGY

To achieve our objectives related to benefit payment application controls, we:

- Interviewed personnel to obtain an understanding of GEHA's claims processing system.
- Documented and evaluated GEHA's policies and procedures currently in place to protect program enrollees and program systems from fraud and abuse.
- Developed 22 dental claim case scenarios based on information provided by GEHA and on the best practices of health insurance carriers. Results from the test cases were reviewed to determine whether GEHA has proper application controls in place over its claim processing and check-writing systems to ensure that FEDVIP-related transactions were valid, properly authorized, and accurately processed.

To test and determine if administrative expenses incurred by GEHA for the FEDVIP program and reported to OPM as part of the premium determination were actual, necessary, reasonable, and allocable to the program we judgmentally selected:

- Three direct expense accounts with total amounts paid in 2007 and 2008 (combined) over \$50,000, with the greatest percentage increase from 2007 to 2008. Additionally, we selected one account based on nomenclature review. Within each of the four accounts, we selected the following transactions to test:
 1. Claim Payment Supplies Account: We selected the top three transactions by high dollar amount;
 2. Contract Services Account: We selected all transactions (four) related to "Open Season;"
 3. Advertising Account: We selected all transactions (20) from the month with the most activity/transactions; and
 4. Managed Care Account: We selected all transactions (nine) from the first three months of 2008.

Our administrative expense samples represented \$353,841 out of a universe of \$5,422,452.

To determine if FEDVIP premiums were appropriately collected and paid we:

- Reviewed the "Request for Proposal" agreements between OPM and GEHA/FEDVIP to determine the components of the premiums.
- Judgmentally selected the premiums for May and June 2008 to verify the premiums received and recorded. The sample reviewed represented approximately \$8.5 million of the \$51.5 million in premiums received in 2008.

To achieve our objectives related to cash management activities we:

- Reviewed the GEHA/FEDVIP bank statements and procedures related to accounting for FEDVIP premiums to determine whether the FEDVIP funds were maintained separately from GEHA's other lines of business.
- Judgmentally selected the last four months of 2008 to review interest earned and to determine if funds were invested and held in an interest-bearing account until used to pay claims, and if the amount reported as investment income was accurate. The interest received in these months amounted to \$20,048 from a total for 2008 of \$43,618.

- Reviewed the GEHA/FEDVIP outstanding checks policies and procedures and outstanding checks reports to determine if the policies were reasonable and if there were any checks outstanding for more than two years.

To determine if GEHA is in compliance with the HIPAA regulations, we reviewed GEHA's responses to our HIPAA questionnaire and its internal HIPAA policies and procedures.

To achieve our fraud and abuse objectives, we interviewed GEHA personnel and reviewed GEHA's internal fraud policies and procedures and other information to gain an understanding of their fraud and abuse program and to determine compliance with the contract requirements.

To achieve our objectives related to subcontracts, we:

- Obtained a listing of subcontracts requested for approval from OPM and GEHA.
- Determined whether any subcontract's costs exceeding \$550,000 received appropriate approval.
- Reviewed the costs charged to the FEDVIP program, for all qualifying subcontracts, to determine if they were allowable, allocable and reasonable.

Because the samples we selected and reviewed in performing the audit were not statistically based, 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.

We used the FEDVIP contract, the Federal Acquisition Regulations, and the laws and regulations governing GEHA/FEDVIP to determine whether GEHA's application controls over claim benefit payments, administrative expenses, premiums, cash management activities, HIPAA compliance, fraud and abuse policies and procedures, and subcontracts were in compliance with the terms of the contract and the applicable regulations.

The initial results of our audit were discussed with GEHA during an exit conference at the end of our on-site work. We did not issue a draft report for review and comment because GEHA properly administered the program in accordance with Contract OPM-RFP-06-00060-6 and the FEDVIP regulations (5 CFR Part 894).

III. AUDIT RESULTS

Based on our review of application controls over claim benefit payments, administrative expenses, premiums, cash management activities, HIPAA compliance, fraud and abuse policies and procedures, and subcontracts, we found that GEHA properly administered the program in accordance with Contract OPM-RFP-06-00060-6 and the FEDVIP regulations (5 CFR Part 894).

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Special Audits Group

[REDACTED] Auditor-In-Charge

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