

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 of  
HealthAmerica of Pennsylvania, Inc.**

**Report No. 1C-SW-00-09-047**

**Date: September 23, 2010**

**-- 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.



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  
HealthAmerica of Pennsylvania, Inc.  
Contract Number CS 2078-A - Plan Code SW  
Harrisburg, Pennsylvania**

**Report No. 1C-SW-00-09-047**

**Date: September 23, 2010**

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

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



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

---

## EXECUTIVE SUMMARY

---

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
HealthAmerica of Pennsylvania, Inc.  
Contract Number CS 2078-A - Plan Code SW  
Harrisburg, Pennsylvania**

**Report No. 1C-SW-00-09-047**

**Date: September 23, 2010**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthAmerica of Pennsylvania, Inc. (Plan). The audit covered contract years 2005 through 2009 and was conducted at the Plan's office in Harrisburg, Pennsylvania.

This report questions \$4,860,216 for defective pricing to the FEHBP in contract year 2005. The questioned amount includes \$3,874,612 for inappropriate health benefit charges and \$985,604 due the FEHBP for lost investment income, calculated through August 31, 2010. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2006 through 2009.

For contract year 2005, we determined that the FEHBP's rates were overstated by \$3,874,612 due to defective pricing. More specifically, the Plan did not utilize the net community weighted experience factor for the FEHBP and did not correctly account for the FEHBP's benefit changes.

Consistent with the FEHBP regulations and the contract, the FEHBP is due \$985,604 for lost investment income, calculated through August 31, 2010, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the

period beginning September 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

Finally, the Plan did not maintain and provide adequate source documentation to support the rates charged to the FEHBP and the SSSGs for all years audited.

## CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	5
Premium Rates .....	5
1. Defective Pricing .....	5
2. Lost Investment Income .....	7
3. Records Retention .....	7
IV. MAJOR CONTRIBUTORS TO THIS REPORT .....	10
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	
Appendix (HealthAmerica of Pennsylvania, Inc.'s June 21, 2010, response to the draft report)	

# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at HealthAmerica of Pennsylvania, Inc. (Plan) in Harrisburg, Pennsylvania. The audit covered contract years 2005 through 2009. The audit was conducted pursuant to the provisions of Contract CS 2078-A; 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**

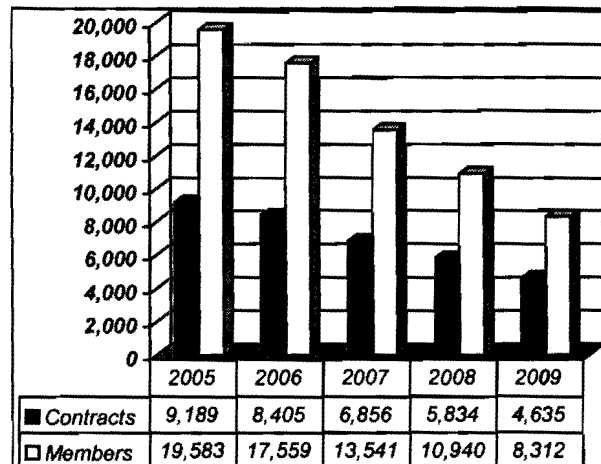
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Center for Retirement and Insurance Services. 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.

**FEHBP Contracts/Members  
March 31**



The Plan has participated in the FEHBP since 1986 and provides health benefits to FEHBP members in central Pennsylvania. The last audit conducted by our office was a full scope audit and covered contract years 2000, 2001, 2003 and 2004. All matters related to that audit have been resolved.

The preliminary results of this audit were discussed with Plan officials at an exit conference and in subsequent correspondence. A draft report was also provided to the Plan for review and comment. The Plan's comments were considered in the preparation of this report and are included, as appropriate, as the Appendix.

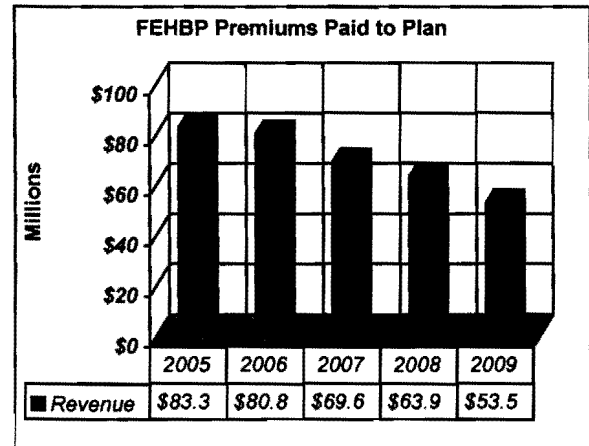
## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### 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 2005 through 2009. For these contract years, the FEHBP paid approximately \$351 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 Harrisburg, Pennsylvania during August 2009. Additional audit work was completed at our field offices 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. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete and valid. 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 (FEHBAR), 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's policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **Premium Rates**

##### **1. Defective Pricing**

**\$3,874,612**

The Certificate of Accurate Pricing the Plan signed for contract year 2005 was defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for this year. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$3,874,612 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract years 2006 through 2009.

FEHBAR 1652.215-70 provides that carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the proposed subscription rates, subject to adjustments recognized by OPM, are market price rates. OPM regulations refer to a market price rate in conjunction with the rates offered to an SSSG. If it is found that the FEHBP was charged higher than a market price (i.e., the best rate offered to an SSSG), a condition of defective pricing exists, requiring a downward adjustment of the FEHBP premiums to the equivalent market price.

#### **2005**

We agree with the Plan's selection [REDACTED] and [REDACTED] as SSSGs for contract year 2005. Our analysis of the rates charged to the SSSGs shows that neither [REDACTED] nor [REDACTED] received a discount.

The Plan applied a community wide experience (CWE) factor to the FEHBP experience for both the high and standard options of [REDACTED] for medical and [REDACTED] for pharmacy; however, the audited factors were [REDACTED] for medical and [REDACTED] for pharmacy for the high option and [REDACTED] for medical and [REDACTED] for the standard option.

We also found that the Plan did not appropriately account for the FEHBP high and standard option pharmacy renewal benefit in the calculation of the benefit change factor. Specifically, the Plan used a [REDACTED] pharmacy base rate for the high option and a [REDACTED] pharmacy base rate for the standard option; however, based on the rate filing that was available at the time of the rate development and was consistently used for all reviewed groups, the high option pharmacy base rate should be [REDACTED] and the standard option pharmacy base rate should be [REDACTED]. We made these changes to the FEHBP pharmacy benefit calculations and determined that the high option benefit change factor should be [REDACTED] and the standard pharmacy benefit change factor should be [REDACTED], not the [REDACTED] and [REDACTED] factors that the Plan applied.

We re-developed the FEHBP's rates by correcting the above noted exceptions. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$3,874,612 in 2005 (see Exhibit B).

**Plan's Comments (See Appendix):**

The Plan states the following arguments and concludes that it is due \$7,174,728 for 2005.

- I. We used a different 'market methodology' to determine the group's rate in 2005.
- II. An early retiree surcharge should be applied to the FEHBP since a [REDACTED] surcharge was applied to [REDACTED] and a [REDACTED] surcharge was applied to [REDACTED]
- III. The January 1, 2005 state rate filing should be applied to the FEHBP and [REDACTED] rates to show "the most defensible, non-biased measurement of variance."

**OIG's Response to the Plan's Comments:**

- I. We disagree with the Plan's assertion that a different market methodology was used to develop the 2005 audited rates. The Plan provided a copy of the FEHBP reconciliation, including rating exhibits showing the development of the FEHBP reconciled rates as well as the development of the rates charged to [REDACTED] and [REDACTED]. The rating exhibits provided in the reconciliation were consistently used among the audited groups. Therefore, we used this methodology to analyze the FEHBP and SSSG rates. A "different market methodology" was not used in 2005.
- II. We also disagree with the Plan's assertion that the FEHBP rates should increase due to an arbitrary early retiree upward market rate adjustment given to the SSSGs. First and foremost, an early retiree surcharge cannot be identified in either [REDACTED] or [REDACTED] rate developments. Secondly, OPM's rules and regulations dictate that the FEHBP receive a market rate, which is based on a comparison to the rates charged to the SSSGs. In addition, the FEHBP rates should be developed based on a methodology consistent with the one used for the SSSGs. However, arbitrary upward market rate adjustments are not recognized as part of a consistent methodology because they are subject to the discretion of the individual and cannot be uniformly applied to all groups.
- III. The January 1, 2005, rate filing cannot be used as support for the 2005 rates since this was not the methodology used at the time of rating and violates OPM's and the Plan's own policies and procedures.
  - (a) As stated in the 2005 rate instructions, page 16, "You must go through the same procedure you used to derive the Line 1 rates in the original 2005 rate proposal, changing the trend factor and/or administration cost factor if appropriate. All other parts of the reconciliation should be done the same way you did the original proposal."
  - (b) As expressed in the Plan's rating methodology write-up, "Cost levels are derived from the most recently approved filing for the effective date of the projected rating period."

It is apparent from the rate instructions and the Plan's stated rating methodology that the appropriate rate filing available at the time of the rate proposal for the FEHBP and [REDACTED] is the first quarter 2004 rate filing, not the January 1, 2005 rate filing. It is not appropriate for the Plan to attempt to use an updated rate filing that was not available when the rates were developed.

### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$3,874,612 to the FEHBP for defective pricing in contract year 2005.

### **2. Lost Investment Income**

**\$985,604**

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing findings due the FEHBP in contract year 2005. We determined that the FEHBP is due \$985,604 for lost investment income, calculated through August 31, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning September 1, 2010, until all defective pricing finding amounts have been returned to the FEHBP.

FEHBAR 1652.215-70 provides that, if any rate established in connection with the FEHBP contract was increased because the carrier furnished cost or pricing data that were not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

### **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$985,604 to the FEHBP for lost investment income for the period January 1, 2005 through August 31, 2010. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning September 1, 2010, until all defective pricing amounts have been returned to the FEHBP.

### **3. Records Retention**

The Plan did not provide adequate documentation to support the rates charged to the FEHBP and the SSSGs for all years audited. Federal Acquisition Regulation 1652.204-70 requires the carrier to retain all records for five years after the end of the contract term to which the records relate.

Without appropriate supporting documentation, it is difficult to determine if the FEHBP rates were established in accordance with the Plan's contract, applicable regulations, and OPM community-rating guidelines. Under these circumstances, we may have to depend on other data, and at times, different rating methodologies to determine the appropriateness of the FEHBP rates. The outcome of our analysis based on the best information available may result in a less desirable outcome to the Plan. Therefore, it is in the best interest of a plan to retain the information needed to verify the FEHBP and the SSSGs rates.

**Plan's Comments (See Appendix):**

The Plan states that its underwriting files actually contain more than one version of the documentation. The Plan further states that documentation which matches the reconciliation response has been identified and submitted. Therefore, the Plan respectfully requests that the verbiage indicating non-compliance with retention of original documentation be removed from the report. The Plan states that its service areas were expanded in the interim between the original submission and the reconciliation for the plan year 2005, which was the primary reason for the differences in documentation from proposal to reconciliation.

**OIG's Response to the Plan's Comments:**

While we acknowledge that we ultimately received, or obtained through other sources, enough information to analyze the FEHBP and the SSSG rates, the information provided by the Plan was not complete and it was not timely. For example, in the Plan's response to the draft report, we received the FEHBP's experience support used at the time of rating. However, we have yet to receive supporting documentation for the age/sex and area factors reported in the 2005 proposal and reconciliation exhibits. It appears that the age/sex and area factors were reported consistently during both filing periods; however, the Plan has yet to provide documentation supporting the calculation of these factors. Ultimately, we had to complete a reasonability test based on the recreated age/sex and area factor calculations.

Secondly, the Plan stated that we did not use the market methodology (Group Subscriber Community Rate (GSCR) methodology) in 2005 to determine the reconciled and billed rates for all groups; however, we have yet to receive a GSCR rate model from the Plan that supports the values reported in the reconciliation and billed to the SSSGs.

For all audit scope years, we made multiple requests for the source documentation for the experience used in the FEHBP rate developments. The information was never supplied. Ultimately, experience documentation for audit scope years 2006 through 2008 was identified and matched in the audit of HealthAmerica of Pennsylvania, plan code 26, which was conducted in March 2009. During that audit, when experience data was requested, we were supplied with documentation that matched the FEHBP experience. In the supplied support was also FEHBP experience for all HealthAmerica plan codes, including SW. It is unclear why our multiple requests for matching documentation could not be supplied at the Harrisburg audit site, but could ultimately be found in support received during a prior audit (Report #1C-26-00-09-022) of a sister plan.

Finally, the Plan's determination of monies owed the Plan are not based on supported calculations. The Plan has not provided sufficient support to prove that [REDACTED] and [REDACTED] received early retiree surcharges, since both ratings do not include calculations similar to the one applied to the FEHBP in the Plan's response. Additionally, the Plan states that there should be a reversal of the [REDACTED] discount presented in the draft report; however, the supplied rate development in the Plan's response shows that the group received a [REDACTED] percent discount. Ultimately, our analysis showed that [REDACTED] did not receive a discount. This is just one example of the Plan's inconsistent documentation and unsupported assertions.

We have received information from the Plan; however, most of it was not the original source documentation used at the time of rating. This situation has lead us to use multiple reasonability tests in all audit scope years. Most notably, the majority of the documentation supplied for 2005 has not been source documentation and does not support the 2005 reconciled and billed rates. We have made multiple requests and attempts to receive the source documentation for all years for this audit, with very little success. We believe that the verbiage indicating non-compliance is fully accurate for this Plan.

### **Recommendation 3**

We recommend that the contracting officer assess the maximum penalty allowed in the contract between OPM and the Plan for the Plan's breach of the records retention clause.

In addition, we recommend that the contracting officer inform the Plan that:

- OPM expects it to fully comply with the records retention provisions of the contract and all applicable regulations;
- it should maintain copies of all pertinent rating documents that show the factors and calculations the Plan uses in developing the actual rates for the FEHBP and the groups closest in size to the FEHBP for each unaudited year;
- it should maintain copies of the enrollment reports and other necessary supporting documents for the FEHBP and the groups closest in size to the FEHBP for each unaudited year; and
- the applicable community-rated performance factors described in FEHBAR 1609.7101-2 will be adversely affected if information requested during audits is not provided.

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

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

██████████, Auditor-In-Charge

██████████ Lead Auditor

██████████, Auditor

---

██████████, Chief

██████████ Senior Team Leader

**Exhibit A**

**HealthAmerica of Pennsylvania  
Summary of Questioned Costs**

**Defective Pricing Questioned Costs:**

Contract Year 2005	<u>\$3,874,612</u>
<b>Total Defective Pricing Questioned Costs</b>	<b>\$3,874,612</b>
<b>Lost Investment Income</b>	<u><b>\$985,604</b></u>
<b>Total Questioned Costs</b>	<u><b>\$4,860,216</b></u>



**HealthAmerica of Pennsylvania  
Defective Pricing Questioned Costs**

<b>2005 Contract Year - High Option</b>		<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates		\$ [REDACTED]	[REDACTED]	
Audited Rates		[REDACTED]	[REDACTED]	
Biweekly Overcharge		[REDACTED]	[REDACTED]	
To Annualize:				
x March 31, 2005 Headcount		[REDACTED]	[REDACTED]	
x Pay Periods		<u>26</u>	<u>26</u>	
Subtotal		[REDACTED]	\$ [REDACTED]	
<b>Total 2005 High Option Defective Pricing Questioned Costs</b>				<b>\$3,806,399</b>
<b>2005 Contract Year - Standard Option</b>		<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates		[REDACTED]	[REDACTED]	
Audited Rates		[REDACTED]	[REDACTED]	
Biweekly Overcharge		[REDACTED]	[REDACTED]	
To Annualize:				
x March 31, 2005 Headcount		[REDACTED]	[REDACTED]	
x Pay Periods		<u>26</u>	<u>26</u>	
Subtotal		[REDACTED]	[REDACTED]	
<b>Total 2005 Standard Option Defective Pricing Questioned Costs</b>				<b>\$68,213</b>
<b>Total Defective Pricing Questioned Costs</b>				<b><u>\$3,874,612</u></b>

**HealthAmerica of Pennsylvania  
Lost Investment Income**

Year	2005	2006	2007	2008	2009	2010	Total
<b>Audit Findings:</b>							
Defective Pricing	\$3,874,612	\$0	\$0	\$0	\$0	\$0	\$3,874,612
<hr/>							
Totals (per year):	\$3,874,612	\$0	\$0	\$0	\$0	\$0	\$3,874,612
Cumulative Totals:	\$3,874,612	\$3,874,612	\$3,874,612	\$3,874,612	\$3,874,612	\$3,874,612	\$3,874,612
Average Annual Interest Rate:	4.3750%	5.4375%	5.5000%	4.9375%	5.2500%	3.1875%	
Interest on Prior Years Findings:	\$0	\$210,682	\$213,104	\$191,309	\$203,417	\$82,335	\$900,847
Current Years Interest:	\$84,757	\$0	\$0	\$0	\$0	\$0	\$84,757
<hr/>							
Total Cumulative Interest Through August 31, 2010	\$84,757	\$210,682	\$213,104	\$191,309	\$203,417	\$82,335	<b>\$985,604</b>



2010 JUN 25 AM 10:01

Evelyn Pendleton  
 Chief Financial Officer  
 Coventry Health Care, HealthAmerica  
 3721 TecPort Drive  
 P.O. Box 67103  
 Harrisburg, PA 17106-7103

June 21, 2010

██████████  
 Chief, Community-Rated Audits Group  
 U.S. Office of Personnel Management  
 Office of the Inspector General  
 1900 E Street, NW Room 6400  
 Washington DC 20415-1100

RE: 2005 Audit Year Response

Dear ██████████:

Enclosed are our comments regarding the draft findings, using issue-by-issue bullet points to address the carrier concerns regarding the audit's initial conclusions. For ease of reference, the 2005 findings are quoted again here:

### 2005

We agree with the Plan's selection ██████████ and ██████████ as SSSGs for contract year 2005. Our analysis of the rates charged to the SSSGs shows that ██████████ received a ██████████ percent discount, which the Plan did not apply to the FEHBP. ██████████ did not receive a discount.

The Plan did not retain the original documentation used at the time of the rating and supplied documentation that supported a lower rate for the FEHBP in 2005. We re-rated the FEHBP by using the documentation supplied by the Plan and applied the ██████████ percent ██████████ discount. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$7,035,997 in contract year 2005 (see Exhibit B).

- Issue 1 of 3: The Plan did not retain the original documentation used at the time of the rating and supplied documentation that supported a lower rate for the FEHBP in 2005.

Response: UW files actually contain more than one version of the documentation. For this purpose, it is critical to respond that documentation which matches the reconciliation response has been identified and submitted, and that Carrier respectfully requests that OPM remove the verbiage indicating non-compliance with retention of original documentation. It is of special note in this situation that our service areas were expanded in the interim between the original submission and the reconciliation for the plan year 2005, which was the primary reason for the differences in documentation from proposal to reconciliation. We regret any confusion this has caused.

CONFIDENTIAL: FOR OPM USE ONLY

**Deleted by the OIG  
Not Relevant to the Final Report**

The Carrier and the FEHBP differ in their analyses of what the "market methodology" was in 2005, with the allegation that the FEHBP did not receive most favored nation pricing. Because the differences in calculations are a result of independent determination and the opinion of OPM, not citing the particular documentation which allowed the auditor to determine a lower rate, and because OPM's methodology is not in agreement with HAPA's presented methodology, it is necessary to examine the differential in rate between filed and approved methodology and that which was used in 2005 for the FEHBP and the SSSG's in order to determine any variation.

By following this procedure, a determination may be made of any discounts or surcharges that exist. This is an important point because the Carrier is not limited to simply using filed and approved methodology, as in 2005, the directions are very clear on what determines the market rate.

Attachments (Community Rating Guidelines 2005).doc

Pp6:

48CFR 1602.170-13 (c) *OPM shall determine the FEHBP rate by selecting the lower of the two rates derived by using the two rating methods consistent with those used to derive the SSSG rates.*

Using this standard, we agree with OPM that no discount was applied to [REDACTED], and in the examination of [REDACTED] a [REDACTED] load was applied to the rates for the basic calculation. In addition, note that both SSSG's surcharge early retirees: a [REDACTED] surcharge on early retirees' contracts was applied for the SSSG [REDACTED] and a [REDACTED] surcharge was applied on early retirees' contracts for the SSSG [REDACTED]. Therefore, it is the Carrier's position that the rating methods of the SSSG's indicate that an early-retiree load may be applied to early retiree contracts in addition to the final premium calculation, *absent total group premium neutrality adjustments to the active contracts, as was done for both SSSG's*. This action would be clearly supported by 48CFR 1602.170-13 (c), because it is defacto methodology, present in both SSSG's, and so premium demand for the FEHBP rises by [REDACTED], or \$7.4 million dollars for the 2005 FEHBP plan year (using the [REDACTED] early-retiree load, which is the lesser of the two SSSG rate methodologies).

See workbook:

EPA Fed GSCR Model - [REDACTED] Calc (Filed & Approved).xls

CONFIDENTIAL: FOR OPM USE ONLY

Issue 3 of 3:

"The Plan ...supplied documentation that supported a lower rate for the FEHBP in 2005. We re-rated the FEHBP by using the documentation supplied by the Plan ..."

Response:

As was mentioned in Issue 2, examination of the SSSG methodology, examining differentials from filed- and approved/book of business methodology, yields the most defensible, non-biased measurement of variance. Filed and approved versions of all the FEHBP and SSSG 2005 calculations have been documented using the filed and approved methodologies in place for 01.01.2005 (which is the effective date of the FEHBP and the SSSG's).

A by-item treatment of the differentials between the OPM auditor's version of market methodology relative to the reconciled methodology was demonstrated in the auditor's work papers (which is an EXCEL workbook). This EXCEL workbook has been modified, and is tagged with "Draft Response" in order to demonstrate the market methodology, using filed and approved / book of business SSSG methodology, for the FEHBP GSCR models, and for [REDACTED]

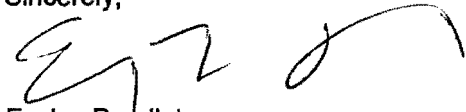
EPA Fed GSCR Model - FEHBP Calc High (Filed & Approved).xls  
EPA Fed GSCR Model - FEHBP Calc Standard (Filed & Approved).xls  
2005 Audited Rates (Draft Response).xls

Because the application of identical methodology as used for the SSSG's *is required* for the FEHBP rating, it is the carrier's finding that we had insufficient pricing for 2005, and as the Carrier, we are due an additional \$7,174,728 from the FEHBP for the 2005 plan year.

Original Draft Findings, 2005 Due to OPM From Carrier	(\$7,035,997)
Adjustment for Issue 1, Retention of Original Documentation	\$0
Adjustment for Issue 2, [REDACTED] Discount of [REDACTED], Reversal	\$425,245
Adjustment for Issue 3, 48CFR 1602.170-13 c, Market Methodology Adjustment	<u>\$13,785,480</u>
Carrier Response to Draft Findings, 2005 Due from OPM to Carrier	\$7,174,728

If you have any questions or need assistance during your review of these comments, please contact me at [REDACTED], or [REDACTED], Consulting Underwriter, at [REDACTED]

Sincerely,



Evelyn Pendleton  
Chief Financial Officer

CC:

[REDACTED], Vice President of Underwriting, Coventry Health Care  
[REDACTED], Vice President Business Development Legal, Coventry Health Care

CONFIDENTIAL: FOR OPM USE ONLY