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 at PersonalCare Insurance of Illinois, Inc.

Report No. **1C-GE-00-10-050**

Date: January 20, 2011

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
PersonalCare Insurance of Illinois, Inc.
Contract Number 2042 - Plan Code GE
Downers Grove, Illinois

Report No. **1C-GE-00-10-050** **Date:** 1/20/2011

Michael R. Esser
Assistant Inspector General
for Audits

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
PersonalCare Insurance of Illinois, Inc.
Contract Number 2042 - Plan Code GE
Downers Grove, Illinois

Report No. 1C-GE-00-10-050 **Date:** 1/20/2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at PersonalCare Insurance of Illinois, Inc. (Plan). The audit covered contract years 2006 through 2009 and was conducted at the Plan's office in Downers Grove, Illinois. Additional audit work was performed in our field offices in Jacksonville, Florida, and Cranberry Township, Pennsylvania.

This report questions $1,837,168 for inappropriate health benefit charges to the FEHBP in contract year 2008, including $180,663 for related lost investment income. For contract year 2008, we determined that the FEHBP rates were overstated by $1,656,505 due to defective pricing. The FEHBP rates were overstated because the Plan discounted the rates given to one similarly sized subscriber group but did not apply this discount to the FEHBP rates. The FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2006, 2007, and 2009.

Consistent with the FEHBP regulations and contract, the FEHBP is due $180,663 for lost investment income, calculated through December 31, 2010, on the defective pricing finding. In addition, we recommend that the contracting office recover lost investment income starting January 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at PersonalCare Insurance of Illinois, Inc. (Plan). The audit covered contract years 2006 through 2009 and was conducted at the Plan's office in Downers Grove, Illinois. The audit was conducted pursuant to the provisions of Contract CS 2042; 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

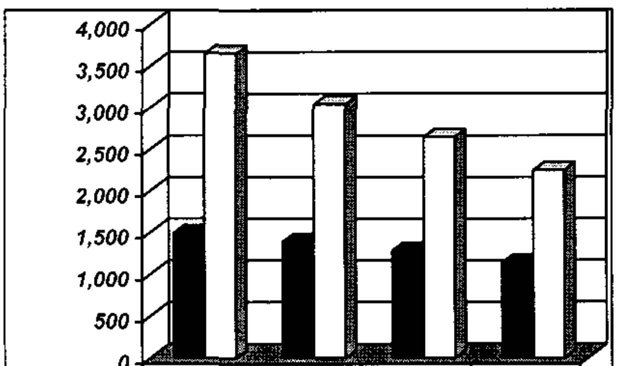
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office.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

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



	2006	2007	2008	2009
■ Contracts	1,496	1,394	1,288	1,142
□ Members	3,648	3,044	2,650	2,247

The Plan participated in the FEHBP from 1986 through 2009 and provided health benefits to FEHBP members in Central Illinois. The last full-scope audit of the Plan covered contract years 2000 through 2002, 2004, and 2005. All issues identified in the prior 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.

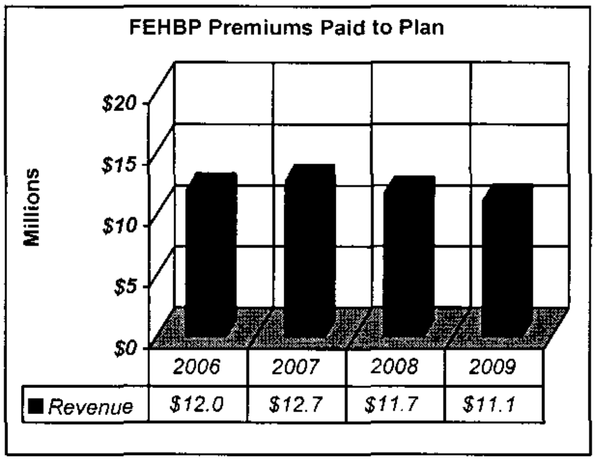
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2006 through 2009. For these contract years, the FEHBP paid approximately $47.5 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 Downers Grove, Illinois, during June 2010. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania, and Jacksonville, Florida.

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 **$1,656,505**

The Certificate of Accurate Pricing the Plan signed in contract year 2008 was defective. In accordance with federal regulations, the FEHBP is therefore due a price reduction for this year. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium adjustment totaling $1,656,505 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract years 2006, 2007, and 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.

2008

The Plan selected [redacted] as the SSSGs in 2008. We agree with the Plan's SSSG selection of [redacted] Our review of the rates charged to the SSSGs shows that [redacted] received a [redacted] percent discount that was not applied to the FEHBP. [redacted] did not receive a discount.

We found that the discount associated with [redacted] was due to a demographics factor that was not applied and an unsupported change in the structure of the group. The Plan stated the group was divided into two distinct sub-groups based on regions, but the Plan's rate model contained only one rating for the entire group. The Plan further stated the sub-group structure was calculated outside of the Plan's rate model. The regions were identified as the [redacted] region and all other locations in the second or main region. The Plan further stated the [redacted] group received an [redacted] percent increase while the main group received a [redacted] percent increase, thereby producing an overall increase of [redacted] percent. Because the rates charged and the sub-group structure for the [redacted] region was unsupported, we audited [redacted] as one group, thereby identifying a [redacted] percent discount. As a result, we applied the [redacted] percent discount in the development of our FEHBP audited rates. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged $1,656,505 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan states that [redacted] did not receive a discount because the group was rated with two distinct sub-groups instead of as a whole. The Plan states it provided the group with two distinct rates, one for each sub-group. The Plan calculated a [redacted] percent increase for the all other locations sub-group and an [redacted] percent increase for the [redacted] sub-group. When weighted together, the separate increases equaled the needed [redacted] percent increase calculated for the group as a whole. The Plan states both rates were offered to the group. The Plan further states that prior to the first billing cycle of the 2008 contract period, all enrollees associated with the [redacted] area elected not to renew with the Plan leaving only the all other locations sub-group, which received the [redacted] percent increase. The Plan states it offered the rates in good faith with the enrollment available at the time of rating. Therefore, the Plan believes it applied the correct percentage increase to the group's rates and no discount was granted to the group. The Plan supplied documentation showing that two separate rates were offered to the group; a rate with a [redacted] percent increase for the all other locations sub-group and a rate with an [redacted] percent increase for the [redacted] sub-group. The Plan also supplied documentation showing the rate containing the [redacted] percent increase was charged in the 2008 contract year.

The Plan did not address the unapplied demographics factor stated in the draft report.

OIG's Response to the Plan's Comments:

Although we agree with the Plan's timeline with regards to the creation of the two distinct sub-group ratings and we agree with the two separate rate increases, we disagree that two separate rates were implemented. The Plan did not provide support showing that [redacted] accepted the two distinct sub-group rating methodology. The Plan only provided support showing the renewal rates billed to the all other locations sub-group. The Plan states this was the only bill because all enrollees associated with the [redacted] location did not renew with the Plan prior to the first billing cycle of the 2008 rates. To verify this assertion, we requested an enrollment report of the enrollees associated with the [redacted] location to support none were included in the March 2008 billing cycle. After analyzing both the 2007 enrollment report used to carve out the [redacted] location enrollees and the [redacted] March 2008 billed rates, we found that 17 enrollees from the [redacted] location enrollment report were billed the all other locations rate. Because only the rate containing the [redacted] percent increase was charged to the entire group, no matter the location, we continue to assert that [redacted] received a [redacted] percent discount in 2008 and the FEHBP is entitled to this discount.

Recommendation 1

We recommend that the contracting officer require the Plan to return $1,656,505 to the FEHBP for defective pricing in contract year 2008.

2. Lost Investment Income $180,663

In accordance with FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing finding in contract year 2008. We determined that the FEHBP is due $180,663 for lost investment income, calculated through December 31, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning January 1, 2011, until all defective pricing 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 was 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.

Plan's Comments (See Appendix):

The Plan did not address this issue.

Recommendation 2

We recommend that the contracting officer require the Plan to return $180,663 to the FEHBP for lost investment income for the period January 1, 2008 through December 31, 2010. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning January 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[redacted] Auditor-in-Charge

[redacted] Auditor

[redacted] Chief

Exhibit A

PersonalCare Insurance of Illinois, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:		
Contract Year 2008	$1,656,505	
Total Defective Pricing Questioned Costs:		$1,656,505
Lost Investment Income:		$180,663
Total Questioned Costs:		***$1,837,168***

EXHIBIT B

PersonalCare Insurance of Illinois, Inc.
Defective Pricing Questioned Costs

<u>2008</u>

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]	
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment			
Pay Periods	26	26	
Subtotal	[redacted]		
Total 2008 Defective Pricing Questioned Costs			$1,656,505

EXHIBIT C

PersonalCare Insurance of Illinois, Inc.
Lost Investment Income

Year	2008	2009	2010	Total
Audit Findings:				
1. Defective Pricing	$1,656,505	$0	$0	$1,656,505
Totals (per year):	$1,656,505	$0	$0	$1,656,505
Cumulative Totals:	$1,656,505	$1,656,505	$1,656,505	$1,656,505
Avg. Interest Rate (per year):	4.9375%	5.250%	3.1875%	
Interest on Prior Years Findings:	$0	$86,967	$52,801	$139,768
Current Years Interest:	$40,895	$0	$0	$40,895
Total Cumulative Interest Calculated Through December 31, 2010:	$40,895	$86,967	$52,801	**$180,663**

PERSONALCARE
A Coventry Health Care Plan

November 23, 2010

[redacted]
U.S. Office of Personnel Management
Office of the Inspector General
1900 E Street, NW
Room 6400
Washington, D.C. 20415-1100

Dear [redacted]

We feel that the 2008 [redacted] renewal pricing was not defective. In addition to what has already been provided, enclosed you will find supporting documentation and a timeline that supports our 2008 [redacted] renewal.

Timeline events:

- 5/31/2007 we released our 2008 [redacted] renewal to [redacted] Formula renewal rates of [redacted] were entered into the on-line [redacted] renewal database. Please see Attachment A which represents a screen shot of the on-line renewal database.

- 7/25/2007 we provided [redacted] a split renewal illustrating the rate action for [redacted] of [redacted] and All Other locations of [redacted] On a composite basis the split renewal equaled a formula increase of [redacted] Please see Attachment B1 where split renewal rates were e-mailed from [redacted] (Account Manger, PersonalCare) to [redacted]. Attachment B2 is the split renewal exhibit included in the e-mail.

- 8/29/2007 we provided [redacted] pre-65 rates for both [redacted] and All Other locations. Please see Attachment C which is a copy of the e-mail correspondence between [redacted] (Account Manager, PersonalCare) and [redacted]. This documentation is provided to confirm [redacted] was a [redacted] employee.

- 9/6/2007 we were notified by [redacted] that PeronalCare would be offered to all eligible [redacted] employees in the 2008 plan year. Please see Attachment D which is a copy of the e-mail from [redacted]

Below is additional documentation to confirm the sold rates:

- A screen print of the final rates from the [redacted] on-line renewal database for employees in the All Other locations. Please see Attachment E. This is confirmation that [redacted] renewed only the All Other location.

- January 2008 invoice confirming final rates paid by [redacted] in 2008. Please see Attachment F. Similar to the bullet above, this is confirmation that [redacted] renewed only the All Other location.

We believe this additional information will provide sufficient evidence that a discount was not applied to the 2008 [redacted] renewal. If you have any questions or would like to discuss further, please call me at [redacted] or [redacted] at [redacted].

Thanks,

[redacted]

PersonalCare

cc: [redacted] PersonalCare
[redacted] PersonalCare
[redacted], PersonalCare
[redacted], PersonalCare
[redacted] OPM