



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 TakeCare Insurance Company

Report No. 1C-JK-00-14-032

Date: January 29, 2015

-- 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.

AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
TakeCare Insurance Company
Contract Number 2825-A Plan Code JK
Tamuning, Guam**

Report No. 1C-JK-00-14-032

Date: January 29, 2015



Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
TakeCare Insurance Company
Contract Number 2825-A Plan Code JK
Tamuning, Guam**

Report No. 1C-JK-00-14-032

Date: January 29, 2015

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at TakeCare Insurance Company (Plan). The audit covered contract years 2009 through 2012, and was conducted at the Plan's office in Tamuning, Guam.

This report questions \$163,557 for inappropriate health benefit charges to the FEHBP in contract years 2011 and 2012. The questioned amount includes \$153,532 for defective pricing and \$10,025 due the FEHBP for lost investment income, calculated through December 31, 2014. We found that the FEHBP premium rates for contract years 2009 and 2010 were developed in accordance with the Office of Personnel Management's Rate Instructions to Community-Rated Carriers.

In contract years 2011 and 2012, we determined that the FEHBP rates were overstated by \$136,133 and \$17,399, respectively, due to defective pricing. Specifically, the Plan applied the dependent age loading to the FEHBP rates after the retention charge. However, the Plan applied the dependent age loading before the retention charge for a Similarly Sized Subscriber Group (SSSG) in contract year 2011, and for both SSSGs in contract year 2012. We recalculated our audited FEHBP rates by applying the dependent age loading before the retention charge to be

consistent with the SSSGs. In addition, the Plan did not apply an SSSG discount to the FEHBP rates in contract year 2011.

Consistent with the regulations and contract, the FEHBP is due \$10,025 for lost investment income, calculated through December 31, 2014 on the defective pricing finding. In addition, we recommend that the contracting officer recover lost investment income starting January 1, 2015, 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 TakeCare Insurance Company (Plan). The audit covered contract years 2009 through 2012, and was conducted at the Plan's office in Tamuning, Guam. The audit was conducted pursuant to the provisions of Contract CS 2825-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

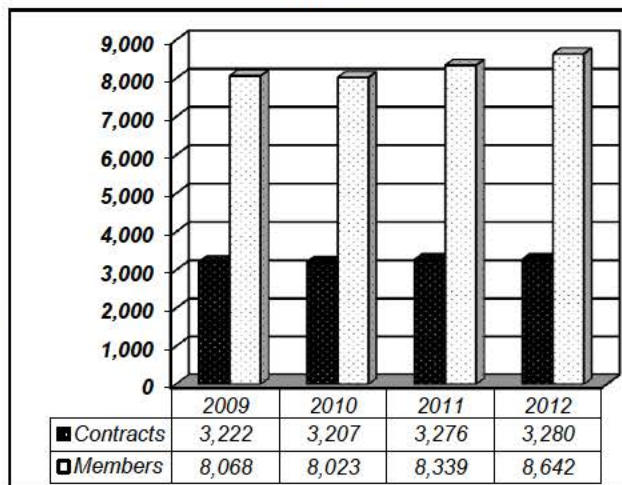
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office.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

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.

FEHBP Contracts/Members
March 31



The Plan has participated in the FEHBP since 1998 and provides health benefits to FEHBP members on the island of Guam. The Plan's prior audit covered contract years 2005 through 2008. All findings associated with 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 preparation of this report and are included, as appropriate, as the Appendix to the report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

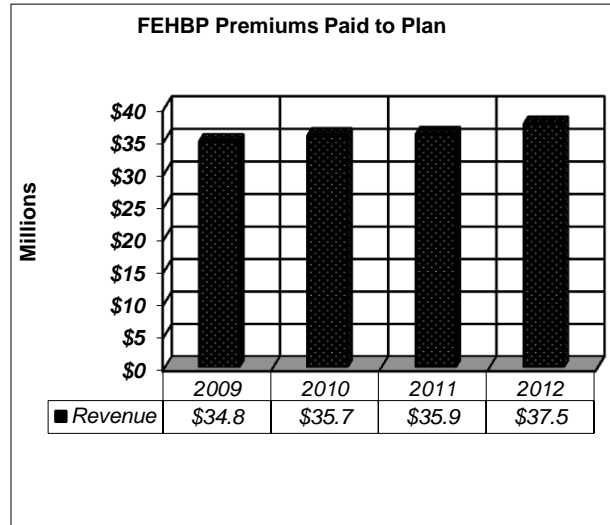
Objectives

The primary objective of this performance audit was to determine if the Plan offered the FEHBP market price rates based on the rates given to the Similarly Sized Subscriber Groups (SSSGs). We also verified 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 2009 through 2012. For these years, the FEHBP paid approximately \$143.9 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 to Community-Rated Carriers (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 SSSGs were selected;
- the rates charged to the FEHBP were 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 Tamuning, Guam during March 2014. Additional audit work was completed at our offices in Jacksonville, Florida and Washington, D.C.

Methodology

We examined the Plan's federal rate submissions and related documents as a basis for validating the market price rates. 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, 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 objectives.

III. AUDIT FINDINGS AND RECOMMENDATIONS

Premium Rate Review

1. Defective Pricing

\$153,532

The Certificates of Accurate Pricing the Plan signed for contract years 2011 and 2012 were defective. In accordance with federal regulations, the FEHBP is therefore due a rate reduction for these years. Application of the defective pricing remedy shows that the FEHBP is due a premium adjustment totaling \$153,532 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the rate instructions in contract years 2009 and 2010.

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. SSSGs are the Plan's two employer groups closest in subscriber size to the FEHBP. If it is found that the FEHBP was charged higher than the market price rate (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 rate.

2011

We agree with the Plan's selection of [REDACTED] and [REDACTED] as the SSSGs for 2011. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] discount. The discount was due to the Plan using the wrong rate increase percentages for several of [REDACTED] subgroups. We used the rate increase percentages that the Plan's rating methodology called for, which produced a [REDACTED] discount for the group. [REDACTED] did not receive a discount. We recalculated the FEHBP rates applying the [REDACTED] SSSG discount.

Our analysis of the FEHBP rates shows that the Plan applied the dependent age loading after the retention charge. However, the Plan applied the dependent age loading before the retention charge for [REDACTED]. We recalculated our FEHBP rates by applying the dependent age loading before the retention charge to be consistent with the SSSG.

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$76,976 for the high option, and \$59,157 for the standard option. (see Exhibit B).

Plan's Comments (see Appendix):

The Plan disagrees with the application of a [REDACTED] discount to the FEHBP rates because of issues with [REDACTED] rate calculation. The adjustment for the wellness incentive program should have been [REDACTED] per member per month (PMPM) and not [REDACTED] PMPM

based on the wellness incentive documentation. The [REDACTED] PMPM was used conservatively on the rate model. The Plan argues that applying this to the [REDACTED] rating and using it as a basis for the defective pricing is not fair to the Plan given that [REDACTED] was overcharged, which is not detrimental to the FEHBP. If the Plan is allowed to use the actual wellness incentive factor, this would have resulted in a [REDACTED] load instead of a discount.

The Plan also states that the dependent age loading was discussed and approved by the OPM Office of the Actuaries (OA) and the Plan should not be penalized for this issue given this approval by the OA.

OIG's Response to the Plan's Comments:

Our analysis of the SSSG rates shows that [REDACTED] received a discount of [REDACTED]. The discount was due to the Plan using the wrong rate increase percentages for several of [REDACTED] subgroups. We used the rate increase percentages that the Plan's rating methodology called for, which produced a [REDACTED] discount for the group.

The dependent age loading was discussed by the OA and the Plan. However, the correspondence shows that the OA was merely clarifying the location in the worksheets and not approving the Plan's methodology in the application of the dependent age loading. Furthermore, per the FEHB Program Carrier Letter 2010-10 (Part I, page 12), "the carrier is expected to use the same rating method for the Federal group as it uses for the SSSGs though different rating methods are acceptable in some situations. If, however, the carrier rates an SSSG using a method inconsistent with the carrier-established policies, the Federal group is entitled to a discount based on the SSSG rating method applied to the Federal group." Therefore, we recalculated our FEHBP rates by applying the dependent age loading before the retention charge to be consistent with the SSSG.

2012

Our analysis of the FEHBP rates shows that the Plan applied the dependent age loading after the retention. However, the Plan applied the dependent age loading before the retention charge for both SSSGs in contract year 2012. We recalculated our audited FEHBP rates by applying the dependent age loading before the retention charge to be consistent with the SSSGs.

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$10,328 for the high option, and \$7,071 for the standard option (see Exhibit B).

Plan's Comments (see Appendix):

The Plan states that the dependent age loading was discussed and approved by the OA, and the Plan should not be penalized for this issue.

OIG’s Response to the Plan’s Comments:

Our response to the Plan’s comments on the dependent age loading issue for 2012 is the same as for 2011 (see page 6).

Recommendation 1

We recommend that the contracting officer require the Plan to return \$153,532 to the FEHBP for defective pricing in contract years 2011 and 2012.

2. Lost Investment Income

\$10,025

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 findings in contract years 2011 and 2012. We determined the FEHBP is due \$10,025 for lost investment income, calculated through December 31, 2014 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning January 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

FEHBP 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):

“If OIG is accepting these responses, there is not corresponding lost investment income resulting from defecting pricing.”

OIG’s Response to the Plan’s Comments:

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 findings in contract years 2011 and 2012.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$10,025 to the FEHBP for lost investment income, calculated through December 31, 2014. We also recommend that the contracting officer recover lost investment income on amounts due for the period

beginning January 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Staff Auditor

██████████, Staff Auditor

██████████, Chief

██████████, Senior Team Leader

Exhibit A

**TakeCare Insurance Company
Summary of Questioned Costs**

Defective Pricing Questioned Costs

Contract Year 2011	<u>\$136,133</u>	
Contract Year 2012	<u>\$17,399</u>	
Total Defective Pricing Questioned Costs		\$153,532
Lost Investment Income		<u>\$10,025</u>
Total Questioned Costs		<u>\$163,557</u>

TakeCare Insurance Company
Defective Pricing Questioned Costs

Contract Year 2011

High Option	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Bi-weekly Overcharge	██████	██████	
To Annualize Overcharge:			
March 31, 2011 enrollment	████	████	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	████████	████████	
Total High Option			\$76,976
Standard Option	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Bi-weekly Overcharge	██████	██████	
To Annualize Overcharge:			
March 31, 2011 enrollment	████	████	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	████████	████████	
Total Standard Option			\$59,157
Total 2011 Defective Pricing Questioned Costs			<u>\$136,133</u>

**TakeCare Insurance Company
Defective Pricing Questioned Costs**

Contract Year 2012

High Option	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	██████████	██████████	
FEHBP Line 5 - Audited Rate	██████████	██████████	
Bi-weekly Overcharge	██████████	██████████	
To Annualize Overcharge:			
March 31, 2012 enrollment	██████████	██████████	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	██████████	██████████	
Total High Option			\$10,328
Standard Option	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	██████████	██████████	
FEHBP Line 5 - Audited Rate	██████████	██████████	
Bi-weekly Overcharge	██████████	██████████	
To Annualize Overcharge:			
March 31, 2012 enrollment	██████████	██████████	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	██████████	██████████	
Total Standard Option			\$7,071
Total 2012 Defective Pricing Questioned Costs			<u>\$17,399</u>

EXHIBIT C

**TakeCare Insurance Company
Lost Investment Income**

Year	2011	2012	2013	2014	Total
Audit Findings:					
1. Defective Pricing	\$136,133	\$17,399	\$0	\$0	\$153,532
Totals (per year):	\$136,133	\$17,399	\$0	\$0	\$153,532
Cumulative Totals:	\$136,133	\$153,532	\$153,532	\$153,532	\$153,532
Avg. Interest Rate (per year):	2.563%	1.875%	1.563%	2.063%	
Interest on Prior Years Findings:	\$0	\$2,552	\$2,399	\$3,167	\$8,118
Current Years Interest:	\$1,744	\$163	\$0	\$0	\$1,907
Total Cumulative Interest Calculated Through December 31, 2014:	\$1,744	\$2,715	\$2,399	\$3,167	\$10,025



August 15, 2014

██████████
Chief, Community Rated Audits Group
United States Office of Personnel Management
Office of the Inspector General
800 Cranberry Wood Drive
Suite 270
Cranberry Township, Pennsylvania 16066

Re: TakeCare Insurance Company, Inc. (“TakeCare”) Response to Office of the Inspector General (“OIG”) Draft Audit Report (Audit Report No. 1C-JK-00-14-032)

Dear ██████████:

Thank you for the opportunity to respond to the audit findings as stated on the OIG draft audit report for TakeCare (Audit Report No. 1C-JK-00-14-032) dated July 17, 2014.

The following responds to the audit findings stated in the OIG Draft report:

1. Defective Pricing

TakeCare does not agree with the application of a ██████████ discount on the Federal Employee Health Benefit Plan (“FEHBP”) rating because of issues with Similarly Sized Subscriber Group (“SSSG”) 1 – ██████████ rate calculation. As discussed with the on-site auditors, the adjustment for the wellness incentive program should have been ██████████ per member per month (“pmpm”) and not ██████████ pmpm based on the attached wellness incentive documentation (Exhibit A). The ██████████ pmpm was used conservatively on the rate model. Applying this to the ██████████ rating and used it as basis for the defective pricing is not fair to TakeCare given that we have overcharged the SSSG 1 – ██████████ group which is not detrimental to the FEHBP. If TakeCare is allowed to use the actual wellness incentive factor based on Exhibit A, this would have resulted to a ██████████ load instead of a discount based on the attached ██████████ rate calculation (Exhibit B) and Calculation of Load/Discount (Exhibit C).

Likewise, the dependent age loading was discussed and approved by the OPM Office of the Actuaries and TakeCare should not be penalized for this issue given this approval by the Office of the Actuaries. Attached is the email correspondence and documentation on this issue (Exhibit D).

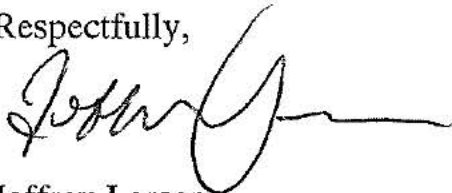
2. Lost Investment Income

If OIG is accepting these responses, there is not corresponding lost investment income resulting from defecting pricing.

We anticipate that our responses are sufficient to address all audit findings in this draft report and these issues will be deemed resolved in the final audit report for TakeCare.

Please do not hesitate to contact me with any concerns or questions.

Respectfully,



Jeffrey Larsen
President and Plan Administrator
TakeCare Insurance Company, Inc.
P.O. Box 6578 Tamuning Guam 96931
(671) 300-7101

[REDACTED]

1. Exhibit A – 2011 Wellness Reward Documentation

[REDACTED]

Cc with enclosures:

[REDACTED], Deputy Assistant Director, Federal Employee Insurance Operations,
OPM

[REDACTED], Chief Health Insurance Group III, OPM
[REDACTED], Health Insurance Group III, OPM

[REDACTED], Actuaries Group, OPM
[REDACTED], Senior Team Leader
[REDACTED], Auditor In-Charge
[REDACTED], Staff Auditor
[REDACTED], Staff Auditor
[REDACTED], Senior Product & Pricing Manager and Actuary, TakeCare