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 Aetna Open Access - Georgia

Report No. 1C-2U-00-11-003

Date: April 13, 2011

-- CAUTION --

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
Aetna Open Access - Georgia
Contract Number CS 2867 - Plan Code 2U
Blue Bell, Pennsylvania

Report No. 1C-2U-00-11-003 **Date:** April 13, 2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Aetna Open Access - Georgia (Plan). The audit covered contract years 2006 through 2010 and was conducted at the Plan's office in Blue Bell, Pennsylvania.

This report questions $1,487,355 for inappropriate health benefit charges in contract year 2007. The questioned amount includes $1,273,625 for defective pricing and $213,730 due the FEHBP for lost investment income, calculated through March 31, 2011. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2006, 2008, 2009, and 2010.

For contract year 2007, we determined that the FEHBP's rates were overstated by $1,273,625 due to defective pricing. More specifically the Plan did not apply a similarly sized subscriber group discount to the FEHBP's rates.

Consistent with the FEHBP regulations and the contract, the FEHBP is due $213,730 for lost investment income, calculated through March 31, 2011, on the defective pricing finding. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning April 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

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Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Aetna Open Access - Georgia
Contract Number CS 2867 - Plan Code 2U
Blue Bell, Pennsylvania

Report No. 1C-2U-00-11-003 **Date:** April 13, 2011

Michael R. Esser
Assistant Inspector General
for Audits

CONTENTS

I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Aetna Open Access – Georgia (Plan) in Blue Bell, Pennsylvania. The audit covered contract years 2006 through 2010. The audit was conducted pursuant to the provisions of Contract CS 2867; 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

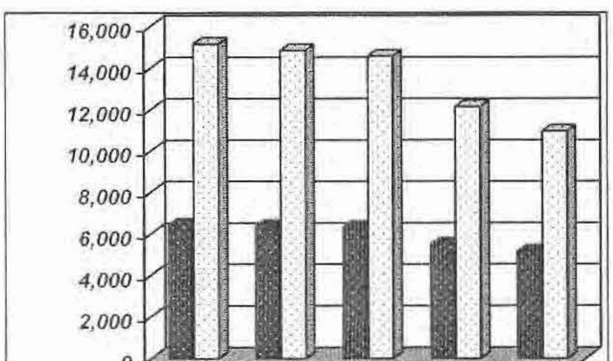
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Healthcare and Insurance Office. 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	2010
Contracts	6,447	6,364	6,316	5,507	5,150
Members	15,168	14,857	14,576	12,154	10,974

The Plan has participated in the FEHBP since 1983 and provides health benefits to FEHBP members in the Athens and Atlanta areas of Georgia. The last audit conducted by our office was a full scope audit and covered contract years 2001, 2003 and 2005. 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.

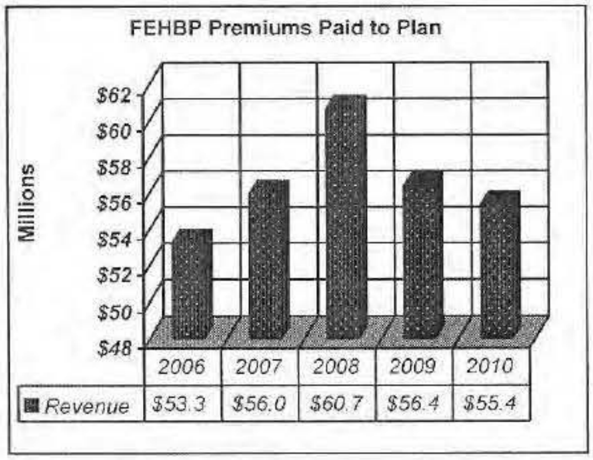
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2006 through 2010. For these contract years, the FEHBP paid approximately $281.8 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 Blue Bell, Pennsylvania, during November 2010. Additional audit work was completed at our field 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 **$1,273,625**

The Certificate of Accurate Pricing the Plan signed for contract year 2007 was defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for this year. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium adjustment totaling $1,273,625 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract years 2006, 2008, 2009, and 2010.

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.

2007

We disagree with the Plan's selection of [redacted] as the SSSGs for contract year 2007. The Plan excluded [redacted] from being selected as an SSSG because the Plan stated that the group had more than a 100 percent enrollment increase from 2006 to 2007. We determined that [redacted] only had a 75.7 percent enrollment increase from 2006 to 2007 and was eligible to be selected as an SSSG. Therefore, we determined that the 2007 SSSGs were [redacted]

Our analysis of the rates charged to the SSSGs shows that [redacted]. did not receive a discount and [redacted] received a [redacted] percent discount. The Plan did not apply a discount to the FEHBP's rates in contract year 2007. [redacted] is a total replacement group and the 2007 Reconciliation Instructions state "for a total replacement group we will not view the first 2% discount on their rates as a discount that will have to be given to the Federal group if it is the carrier's policy to adjust the rates of all total replacement groups by this amount. If some of the replacement groups are given non standard or preferential discounts, this policy will not apply."

We determined that the Plan did not have official policies and procedures related to applying discounts for total replacement groups and that any discounts were applied using a non-standard method of underwriting judgment. Therefore, we did not adjust the discount that [redacted] received by 2 percent and determined that the group received a [redacted] percent discount that is applicable to the FEHBP's rates.

We re-developed the FEHBP's rates by applying the [redacted] percent discount, granted to [redacted] to the line 5 rates. A comparison of the reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged $1,273,625 in 2007 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan agrees that [redacted] was inappropriately excluded as an SSSG and should have been selected as an SSSG.

The Plan agrees that [redacted] received a [redacted] discount, but disagrees with the FEHBP receiving the full [redacted] percent discount. The Plan states that [redacted] was a total replacement group in contract year 2007 and, based on OPM policy, the first 2 percent of the discount is not to be used when applying the discount to the FEHBP's rates. The Plan states that while it does not have a formal, written policy in place regarding a specific adjustment to total replacement groups, the Plan considers total replacement adjustments a business necessity and common industry practice and interprets OPM's instructions to ignore the first 2 percent of any discount as applicable to its total replacement quotes. The Plan states that, based on OPM policy, only a [redacted] percent discount adjustment is appropriate to be applied to the FEHBP's rates.

The Plan also states it recouped any discount that [redacted] received in 2007 in contract year 2008. The Plan [redacted] in contract year 2008 by [redacted] percent and the Plan states that this [redacted] covers the [redacted] percent discount that [redacted] received in the prior year. [redacted], formerly the Renewal Underwriting Head of Aetna's National Account Business, was contacted and confirmed that [redacted]

OIG's Response to the Plan's Comments:

We agree with the Plan's analysis in regards to [redacted] being an eligible SSSG in 2007.

We disagree with the Plan's assertion that the first 2 percent of [redacted]'s discount should be ignored due to the fact that it is a total replacement group. The 2007 Reconciliation Instructions state "For a total replacement group we will not view the first 2 percent discount on their rates as a discount that will have to be given to the Federal group if it is the carrier's policy to adjust the rates of all total replacement groups by this amount. If some of the replacement groups are given non standard or preferential discounts, this policy will not apply." We agree that [redacted] is a total replacement group, but the Plan does not have official policies and procedures for adjusting the rates of all total replacement groups. In its response to the draft report, the Plan states that "While Aetna does not have a written formal policy in place regarding a specific adjustment to total replacement groups, Aetna considers total replacement a business necessity and common industry practice..." We believe that business necessity and common industry practice do not equate to official policies and procedures.

We also disagree with the Plan's assertion that it recouped the [redacted] percent discount [redacted] The 2008 Reconciliation Instructions state "The FEHB must receive all discounts given to an SSSG in the rate reconciliation of the same year the discounts were given. If the carrier can show discounted funds are recovered from an SSSG, the carrier can recoup these funds from the FEHB." We agree that the Plan [redacted] percent in contract year 2008, but in reviewing the Plan's 2008 rate model, there was no evidence that any portion of the [redacted] percent loading was due to [redacted] being undercharged in 2007 and there was no discount applied to the FEHBP's rates in contract year 2007.

Also, the e-mail provided by [redacted] as support for the Underwriting Team's talks to [redacted] which was the time period during the response to the draft report. The Plan did not provide any documentation from the original quote date for [redacted] stating that any portion of the 2008 [redacted] was directly related to the 2007 undercharge.

Recommendation 1

We recommend that the contracting officer require the Plan to return $1,273,625 to the FEHBP for defective pricing in contract year 2007.

2. Lost Investment Income $213,730

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 finding in contract year 2007. We determined that the FEHBP is due $213,730 for lost investment income, calculated through March 31, 2011 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning April 1, 2011, 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.

Plan's Comments (See Appendix):

The Plan did not specifically address lost investment income in its response to the draft report; however, the Plan contends that no adjustment is due the FEHBP for defective pricing in 2007.

OIG's Response to the Plan's Comments:

We believe that the finding is correct and will continue to assess lost investment income for the full amount of the finding in contract year 2007.

Recommendation 2

We recommend that the contracting officer require the Plan to return $213,730 to the FEHBP for lost investment income for the period January 1, 2007 through March 31, 2011. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning April 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], Lead Auditor

[redacted], Auditor

[redacted], Auditor

[redacted], Auditor

[redacted], Chief

[redacted], Senior Team Leader

Exhibit A

Aetna Open Access - Georgia
Summary of Questioned Costs

Defective Pricing Questioned Costs:		
Contract Year 2007	$1,273,625	
Total Defective Pricing Questioned Costs:		$1,273,625
Lost Investment Income:		$213,730
Total Questioned Costs:		***$1,487,355***

Aetna Open Access - Georgia
Defective Pricing Questioned Costs

2007

	Self	Family	
FEHBP Line 5 - Reconciled Rate	[redacted]	[redacted]	
FEHBP Line 5 - Audited Rate	[redacted]	[redacted]	
Overcharge	[redacted]	[redacted]	
To Annualize Overcharge:			
3/31/07 enrollment	[redacted]	[redacted]	
Pay Periods	26	26	
Subtotal	$273,232	$1,000,393	
Total 2007 - Defective Pricing Questioned Costs			$1,273,625

Toal Defective Pricing Questioned Costs **$1,273,625**

Aetna Open Access - Georgia
Lost Investment Income

Year / **Audit Findings:**	2007	2008	2009	2010	2011	Total
1. Defective Pricing	$1,273,625	$0	$0	$0	$0	$1,273,625
Totals (per year):	$1,273,625	$0	$0	$0	$0	$1,273,625
Cumulative Totals:	$1,273,625	$1,273,625	$1,273,625	$1,273,625	$1,273,625	$1,273,625
Avg. Interest Rate (per year):	5.5000%	4.9375%	5.2500%	3.1875%	2.6250%	
Interest on Prior Years Findings:	$0	$62,885	$66,865	$40,597	$8,358	$178,705
Current Years Interest:	$35,025	$0	$0	$0	$0	$35,025
Total Cumulative Interest Calculated Through March 31, 2011:	$35,025	$62,885	$66,865	$40,597	$8,358	**$213,730**

Aetna

2011 MAR -7 PM 2:04

Aetna Health Inc.
980 Jolly Road
Blue Bell, PA 19422

[redacted]
FEHBP Underwriting Manager
Government & Specialty Products
[redacted]

March 4, 2011

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

RE: Aetna's response to Draft Report No. 1C-2U-00-11-003

Dear [redacted]

Aetna submits the following comments to the above mentioned Draft Audit Report issued by the Office of Personnel Management (OPM) Office of the Inspector General (OIG) under the Federal Employees Health Benefits Program (FEHBP). The audit covered the FEHBP contract for the Aetna Open Access - Georgia (Plan Code 2U) for the contract years 2006 through 2010. Except for the 2007 contract year, the OIG determined that the rates Aetna charged the FEHBP were in compliance with OPM's requirements.

With respect to contract year 2007, the Draft Report disagrees with Aetna's Similarly Sized Subscriber Group (SSSG) selection. The Draft Report identifies [redacted] and [redacted] as the appropriate SSSGs. Moreover, the Draft Report indicates that [redacted] received a [redacted] discount that should have been passed along to the FEHBP. Aetna agrees that for contract year 2007, [redacted] was inappropriately excluded as an SSSG, and should have been submitted alongside [redacted], [redacted] However, Aetna disagrees that the FEHBP is entitled to a [redacted] rate adjustment based on Aetna's rating of [redacted]

A. Aetna was a Total Replacement Carrier in 2007

For the 2007 contract year, [redacted] sought to consolidate its health benefit offerings under one carrier. Aetna provided [redacted] with a total replacement quote and was successful in acquiring the business. See Exhibit A, which is a letter from [redacted] Human Resources department to their employees acknowledging Aetna as their sole carrier.

In order to obtain the business for [redacted] entire population, the total replacement renewal package that Aetna presented to [redacted] included a [redacted]. Specifically, in order to secure [redacted] total population with a competitive total replacement quote in 2007, Aetna provided a [redacted] to the group's 2007 rates. [redacted] OPM's Instructions acknowledge the competitive environment in which carriers operate and that, unlike with the FEHBP, a carrier can be presented with the opportunity to be a group's sole carrier. While Aetna does not have a written formal policy in place regarding a specific adjustment to total replacement groups, Aetna considers total replacement adjustments a business necessity and common industry practice, and interprets OPM's Instructions to ignore the first 2% of any discount applied to total replacement quotes. Pursuant to OPM's policy, if the FEHBP is entitled to any adjustment for contract year 2007, that adjustment is limited to [redacted] the amount of the concession provided to [redacted] in excess of the permitted 2%.

B. Aetna Recouped the Concession in 2008

When the audit was initially completed, Aetna was left with the impression that any finding for the 2007 contract year would be limited to a [redacted] adjustment. As a result, Aetna was disappointed to learn that the Draft Report would recommend a [redacted] adjustment for 2007. In preparation for responding to the finding, Aetna's FEHBP underwriting team began working with Aetna's underwriting team responsible for [redacted] to better understand what happened during the 2007 and 2008 rating process. It was at this time that Aetna's FEHBP underwriting team learned of conversations among the Aetna underwriting team [redacted] in 2008 in order [redacted].

On February 23, 2011, [redacted], Aetna's FEHBP Underwriting Manager, met with [redacted], Chief, Community-Rate Audits Group and [redacted], Senior Team Leader, to discuss the Draft Report and how to provide support for [redacted]. Based on OIG's guidance, [redacted], formerly the Renewal Underwriting Head of Aetna's National Accounts business (currently Head of Aetna's RHA Programs) was contacted regarding [redacted]. [redacted] confirmed that the strategy for [redacted] that was applied to [redacted] 2007 rates. See Exhibit B, the email exchange between [redacted] confirming the 2008 strategy [redacted].

OPM's Reconciliation Instructions from Carrier Letter 2007-03 specifically allow for the recovery of discounts to SSSGs. Consistent with those instructions, Aetna's 2008 rating of [redacted] included a [redacted] l [redacted] that recoups the 2007 discount of [redacted] At the time of audit and in the Draft Report, OIG confirmed that in 2008 [redacted] had a [redacted] of [redacted]% to their rates. Based on the support provided with this response regarding the recoup strategy, the [redacted] to [redacted] 2008 rates covers the [redacted] discount in [redacted] 2007 rates. See Exhibit C, the mathematical support illustrating the following:

- 2007 Rating Summary – the [redacted] discount to [redacted] rates
- 2008 Rating Summary– the [redacted] load to [redacted] rates
- 2008 Adjusted Rating Summary – the [redacted] recoup applied to [redacted] 2008 rates

After review of OIG's and Aetna's position on the findings stated in the Draft Report, Aetna believes the findings do not accurately represent the outcome of the 2007 contract year. While Aetna agrees that [redacted] should have been submitted as an SSSG, and that [redacted] received a [redacted] discount to their 2007 rates, under OPM's Instructions (1) if the FEHBP is entitled to an adjustment in 2007 due to the rating of [redacted] that adjustment is limited to [redacted] and (2) regardless of whether the adjustment due the FEHBP is [redacted] or [redacted], Aetna fully recouped the discount from [redacted] in 2008. Although Aetna erred in not identifying [redacted] as an SSSG for 2007, Aetna maintains that there is no rate adjustment due to OPM for 2007.

If you have any questions or concerns about the above response, please feel to contact me at [redacted]

Sincerely

[redacted]

CC: [redacted], Senior Vice President, Federal Plans
[redacted], Health Insurance Group III Insurance Services Program