



US 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 PacifiCare of California**

Report No. 1C-CY-00-08-012

Date: November 28, 2008

--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, caution needs to be exercised before releasing the report to the general public.



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

**Federal Employees Health Benefits Program
Comprehensive Medical Plan - Community-Rated
PacifiCare of California
Contract Number 1937 - Plan Code CY
Cypress, California**

Report No. 1C-CY-00-08-012

Date: November 28, 2008

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

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



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Comprehensive Medical Plan - Community-Rated
PacifiCare of California
Contract Number 1937 - Plan Code CY
Cypress, California**

Report No. 1C-CY-00-08-012

Date: November 28, 2008

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at PacifiCare of California (Plan) in Cypress, California. The audit covered contract years 2005 through 2007 and was conducted at the Plan's office in Cypress, California. This report questions \$1,189,006 for inappropriate health benefit charges in 2005, including \$181,907 for lost investment income. We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and the Office of Personnel Management's rating instructions in contract years 2006 and 2007.

In 2005, we found that the FEHBP rates were overstated by \$1,007,099 because the Plan inappropriately applied a [REDACTED] percent prescription drug trend factor to the FEHBP claims experience and did not fully apply a Similarly Sized Subscriber Group (SSSG) discount. The Plan should have applied a [REDACTED] percent prescription drug trend factor to the nine months of the pharmacy experience, based on the prescription drug formulary in place; only the three months of the pharmacy experience should have received the [REDACTED] percent trend. In addition, the FEHBP did not receive the appropriate SSSG discount. The Plan applied a [REDACTED] percent discount whereas a [REDACTED] percent discount was given to the SSSG. The Plan disagrees with the pharmacy trend finding in our report.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$181,907 for lost investment income, calculated through December 31, 2008, on the defective pricing finding in 2005. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning January 1, 2009, until all defective pricing amounts have been returned to the FEHBP.

AUDIT REPORT

**Federal Employees Health Benefits Program
Comprehensive Medical Plan - Community-Rated
PacifiCare of California
Contract Number 1937 - Plan Code CY
Cypress, California**

Report No. 1C-CY-00-08-012

Date: _____

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

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at PacifiCare of California (Plan). The audit covered contract years 2005 through 2007 and was conducted at the Plan's office in Cypress, California. The audit was conducted pursuant to the provisions of Contract CS 1937; 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.

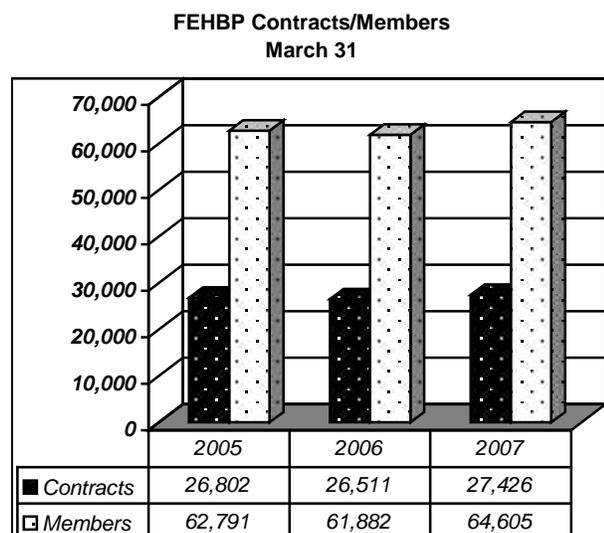
Background

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.



The Plan has participated in the FEHBP since 1983 and provides comprehensive medical services to FEHBP members throughout the State of California. The last full-scope audit covered contract years 2000, 2001, 2003, and 2004. There were no questioned costs identified during the audit.

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

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

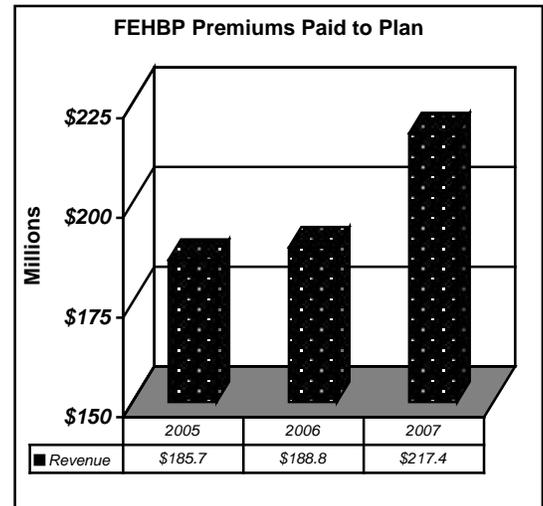
The primary objectives of the audit were to verify that the Plan offered market price rates to the FEHBP and to verify that the loadings to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and 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 2007. During this period, the FEHBP paid approximately \$591.9 million in premiums to the Plan.

The premiums paid for each contract year audited are shown on the chart to the right.



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 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 Cypress, California, during February 2008. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania 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 (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 **\$1,007,099**

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 that year. We applied the defective pricing remedy for the year in question and determined that the FEHBP is entitled to a premium adjustment totaling \$1,007,099 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and OPM rating instructions in contract years 2006 and 2007.

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 rates that exceeded the 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

In 2005, the Plan correctly selected [REDACTED] ([REDACTED] and [REDACTED] as the SSSGs. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] did not receive a discount. The Plan disclosed a [REDACTED] percent discount for [REDACTED] at the time of rate reconciliation and applied the [REDACTED] percent discount to the FEHBP's rates. The Plan disclosed a [REDACTED] percent discount for [REDACTED] in the response to the draft report. However, we found that the Plan incorrectly stated the billed rates for two [REDACTED] subgroups. When the correct rates were applied, the [REDACTED] percent discount disclosed above was produced.

Our analysis of the rates charged to the FEHBP also shows that the Plan applied an overstated pharmacy trend of [REDACTED] percent to the pharmacy claims experience used in the FEHBP rate development. In 2003, the Plan applied an [REDACTED] percent trend to groups having 2-tier closed formulary pharmacy benefits and a [REDACTED] percent trend to groups having 3-tier pharmacy benefits. The FEHBP had a 2-tier closed formulary pharmacy benefit in 2003 and a 3-tier pharmacy benefit in 2004. Since the experience period includes nine months of 2003 pharmacy claims and three months of 2004 pharmacy claims, we adjusted the pharmacy trend for the 2003 experience to [REDACTED] percent to account for the experience having a 2-tier closed formulary benefit.

After adjusting the pharmacy trend and applying the SSSG discount of [REDACTED] percent, we determined that the FEHBP was overcharged \$1,007,099 in 2005 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan disagrees with our pharmacy trend finding in 2005 and agreed to the [REDACTED] percent discount discussed above. The Plan argues that our conclusions were based on a misunderstanding of its rating methodology and the manner in which it calculated the [REDACTED] percent trend. The Plan contends that our reduction of the trend from [REDACTED] percent to a weighted trend percentage was inappropriate. [REDACTED]

[REDACTED] The Plan agrees monies are due to the FEHBP for the SSSG discount and lost investment income associated with the understated discount.

OIG's Response to the Plan's Comments:

As discussed above, we disagree with the Plan's calculation of a [REDACTED] percent SSSG discount and believe that the correct discount is [REDACTED] percent. Further, the Plan's [REDACTED] arguments in its response to our recent PacifiCare of Arizona draft report (Report number 1C-A3-00-06-085) related to this same finding (i.e., 2-tier vs. 3-tier trending) were totally different than its current argument on the PacifiCare of California draft report. In the Arizona response, the Plan simply argues that the FEHBP had a 3-tier pharmacy benefit instead of a 2-tier benefit. Now, the Plan acknowledges the use of a 2-tier pharmacy benefit but argues that [REDACTED] for the higher trend.

The Plan's argument is unsound because the benefit adjustment factor is increased when going from a 2-tier, closed formulary plan, to a 3-tier, open formulary plan. In the end, this causes the total benefit adjustment factor to be higher, resulting in a higher prescription drug rate for the FEHBP, due to the change in formulary management. This is appropriate, since the FEHBP did in fact go from a 2-tier (less expensive, highly managed) formulary to a 3-tier (more expensive, less managed) formulary. However, this benefit change only accounts for the expected utilization of prescriptions during the projected period (or renewal period). It does not account for the lower cost trend of the 2-tier formulary expense that was previously incurred. By applying an average trend of the 2-tier and 3-tier formulary benefits, we effectively trend prescription drug expense at its expected cost level.

Since the benefit adjustment accounts for higher utilization, the lower trend should be applied to the 2-tier pharmacy experience to account for the 2-tier formulary cost levels. The first step is to take the actual claim dollars incurred and convert it to the current cost level. The second step is to take the current-level expected costs and adjust for actual benefit/formulary changes over the experience period, which, among other things, accounts for the change in formulary management. By charging the benefit change and the higher trend, the Plan double-counted the expected costs for the projected period. Therefore, we continue to question the defective pricing amount in this finding.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$1,007,099 to the FEHBP for defective pricing in 2005.

2. Lost Investment Income

\$181,907

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 identified in contract year 2005. We determined that the FEHBP is due \$181,907 for lost investment income, calculated through December 31, 2008 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning January 1, 2009, 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 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 regulations state 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.

We calculated the lost investment income amount based on the United States Department of the Treasury's semiannual cost of capital rates.

Plan's Comments (See Appendix):

The Plan agrees that the FEHBP is entitled to lost investment income on any overpayments actually due to the FEHBP. However, the Plan disputes the defective pricing associated with the pharmacy trend finding amounts, and therefore believes that no lost investment income is due the FEHBP for this finding. The Plan does agree the FEHBP is entitled to lost investment income on overpayments associated with the SSSG finding.

OIG's Response to the Plan's Comments:

We agree that lost investment income should be calculated on the defective pricing amounts actually due the FEHBP. However, we disagree that the FEHBP is not due lost investment income for the pharmacy trend finding. Therefore, our lost investment income calculation is based on the defective pricing amounts discussed in this report.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$181,907 to the FEHBP for lost investment income for the period beginning January 1, 2005 through December 31,

2008. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning January 1, 2009, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████████████, Auditor

██████████████████, Chief

██████████, Senior Team Leader

**PacifiCare of California
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2005	<u>\$1,007,099</u>
Total Defective Pricing	<u>\$1,007,099</u>

Lost Investment Income	<u>\$181,907</u>
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Total Questioned Costs	<u>\$1,189,006</u>
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**PacifiCare of California
Defective Pricing Questioned Costs**

2005 Contract Year	<u>Single</u>	<u>Family</u>
Plan's Reconciled Line 5 Rates	████████	████████
Audited Line 5 Rates	████████	████████
Biweekly Overcharge	████	████
x March 31, 2005 Enrollment	████████	████████
x 26 pay periods	████████	████████
Total Questioned Costs		<u>\$1,007,099</u>

Exhibit C

**PacifiCare of California
Lost Investment Income**

Year	2005	2006	2007	2008	Total
Audit Findings:					
Defective Pricing	\$1,007,099	\$0	\$0	\$0	\$1,007,099
Totals (per year):	\$1,007,099	\$0	\$0	\$0	\$1,007,099
Cumulative Totals:	\$1,007,099	\$1,007,099	\$1,007,099	\$1,007,099	\$1,007,099
Average Annual Interest Rate:	4.3750%	5.4375%	5.5000%	4.9375%	
Interest on Prior Years Findings:	\$0	\$54,761	\$55,390	\$49,726	\$159,877
Current Years Interest:	\$22,030	\$0	\$0	\$0	\$22,030
Total Cumulative Interest: through December 31, 2008	\$22,030	\$54,761	\$55,390	\$49,726	\$181,907

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Appendix

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September 29, 2008

██████████
Chief, Community-Rated Audits Group
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U.S. Office of Personnel Management
1900 E. Street, NW, Room 6400
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RE: Comments to the Draft Audit Report on PacifiCare of California, Plan Code CY, Report No. 1C-CY-00-08-012

Dear ██████████:

We represent PacifiCare of California, a UnitedHealthcare Company ("UnitedHealthcare") in connection with the above referenced matter. UnitedHealthcare Company is responding to this audit on behalf of PacifiCare of California ("PacifiCare," "PacifiCare of California," or "the Plan.")

On June 10, 2008, the United States Office of Personnel Management, Office of the Inspector General ("OPM/OIG") submitted to the Plan a "Draft Report" (1C-CY-00-08-012) ("Draft Report"), detailing the results of its audit of the Federal Employee Health Benefits Program ("FEHBP") operations of PacifiCare of California for Contract Years 2005 through 2007. Upon submission, OPM/OIG requested that the Plan provide comments to the Draft Report.

The Plan appreciates the opportunity to respond to this Draft Report and the willingness of OPM to help resolve the outstanding issues in this audit. The Plan has used its best efforts to obtain all relevant information to respond to the Draft Report's findings and recommendations. This Response will address each issue presented in the Draft Report.

DEFECTIVE PRICING

CY 2005

DISCOUNT OFFERED TO SSSG, [REDACTED]

In its Draft Report, the auditors state that PacifiCare of California incorrectly disclosed a [REDACTED] percent discount for the SSSG, [REDACTED] at the time of Reconciliation, whereas the auditors calculated the discount to [REDACTED] to be [REDACTED] percent. The auditors mistakenly believe that the Plan incorrectly calculated the [REDACTED] discount, based on the following:

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

Per-Member Per-Month Amount Used to Calculate the [REDACTED] Discount

The auditors further state that the Plan used an incorrect model-required per-member-per-month amount to calculate the [REDACTED] discount. The Plan used [REDACTED] however, the support provided by the Plan shows \$[REDACTED]."

The auditors' use of the [REDACTED] per-member per-month amount to calculate the [REDACTED] discount is incorrect. The auditors adopted the [REDACTED] from an internal ACR calculation exhibit that the Plan had submitted as part of its Rate Reconciliation. This [REDACTED] is not appropriate for

the purposes of calculating [REDACTED] discount. [REDACTED]

[REDACTED] See Exhibit 4, "Benefit Selection by Employer [alphabetical by group name]". And [REDACTED] ([REDACTED] [REDACTED]) chose the Plan's pharmacy benefits. (See Exhibit 5, "[REDACTED] Rating, Renewal Date 1/1/2005.")

The proper per-member per-month rate to use in calculating the [REDACTED] discount is [REDACTED]. This amount was derived as follows. The Plan had originally submitted [REDACTED] in its Rate Reconciliation as the per-member per-month amount for its 2005 Required Model Plan. That amount was subsequently corrected by [REDACTED] to account for the Plan's mistake in calculating the [REDACTED], as discussed in the above subsection of this Response Letter. This resulted in a 2005 Required Model Rate of [REDACTED]. (See Exhibit 6, "[REDACTED] 01/01/05 Renewal"; and Exhibit 5, "[REDACTED] Rating, Renewal Date 1/1/2005.")

[REDACTED]

By using these adjustments off the [REDACTED], PacifiCare calculated a new 2005 Required Plan per-member per-month amount [REDACTED] ([REDACTED]). The new 2005 Required Plan per-member per-month amount accurately reflected the assigned risks and the selected benefits [REDACTED] various groups. In addition, the new 2005 Required Plan per-member per-month amount also took into account [REDACTED] (See Exhibit 6, "[REDACTED] 01/01/05 Renewal.")

The new 2005 Required Plan per-member per-month amount of [REDACTED] was then divided by the 2004 Current PMPM amount of [REDACTED] to produce the required Renewal Adjustment of [REDACTED] percent. (See Exhibit 6, "[REDACTED] 01/01/05 Renewal.")

To calculate the variance, PacifiCare took the [REDACTED] of [REDACTED] percent and applied it to all the inforce rates in [REDACTED] (See Exhibit 7, "[REDACTED] [by group].") PacifiCare is applying this [REDACTED] percent discount to replace its original [REDACTED] percent discount [REDACTED].

The impact of PacifiCare's calculation of its revised discount, caused by the pharmacy benefit demographic error, and the resulting impact on the FEHBP rates, are summarized in PacifiCare's revised Rate Analysis. (See **Exhibit 8**, "PacifiCare of California, AUDIT REPORT NO: IC-CY-00-08-012, 2005 Rate Analysis.")

PHARMACY BENEFIT TREND FACTOR

For 2005, the Draft Report makes the following statement related to the Plan's pharmacy benefit trend factor:

"Our analysis of the rates charged to the FEHBP shows that the Plan applied an overstated pharmacy trend of [REDACTED] percent to the pharmacy claims experience used in the FEHBP rate development. In 2003, the Plan applied an [REDACTED] percent trend to groups having a 2-tier closed formulary pharmacy benefits and [REDACTED] percent trend to groups having 3-tier pharmacy benefits. The FEHBP had a 2-tier closed formulary pharmacy benefit in 2003 and a 3-tier pharmacy benefit in 2004. Since the experience period includes 9 months of 2003 pharmacy claims and 3 months of 2004 pharmacy claims, we adjusted the pharmacy trend for the 2003 experience to [REDACTED] percent to account for the experience having a 2-tier closed formulary benefit."

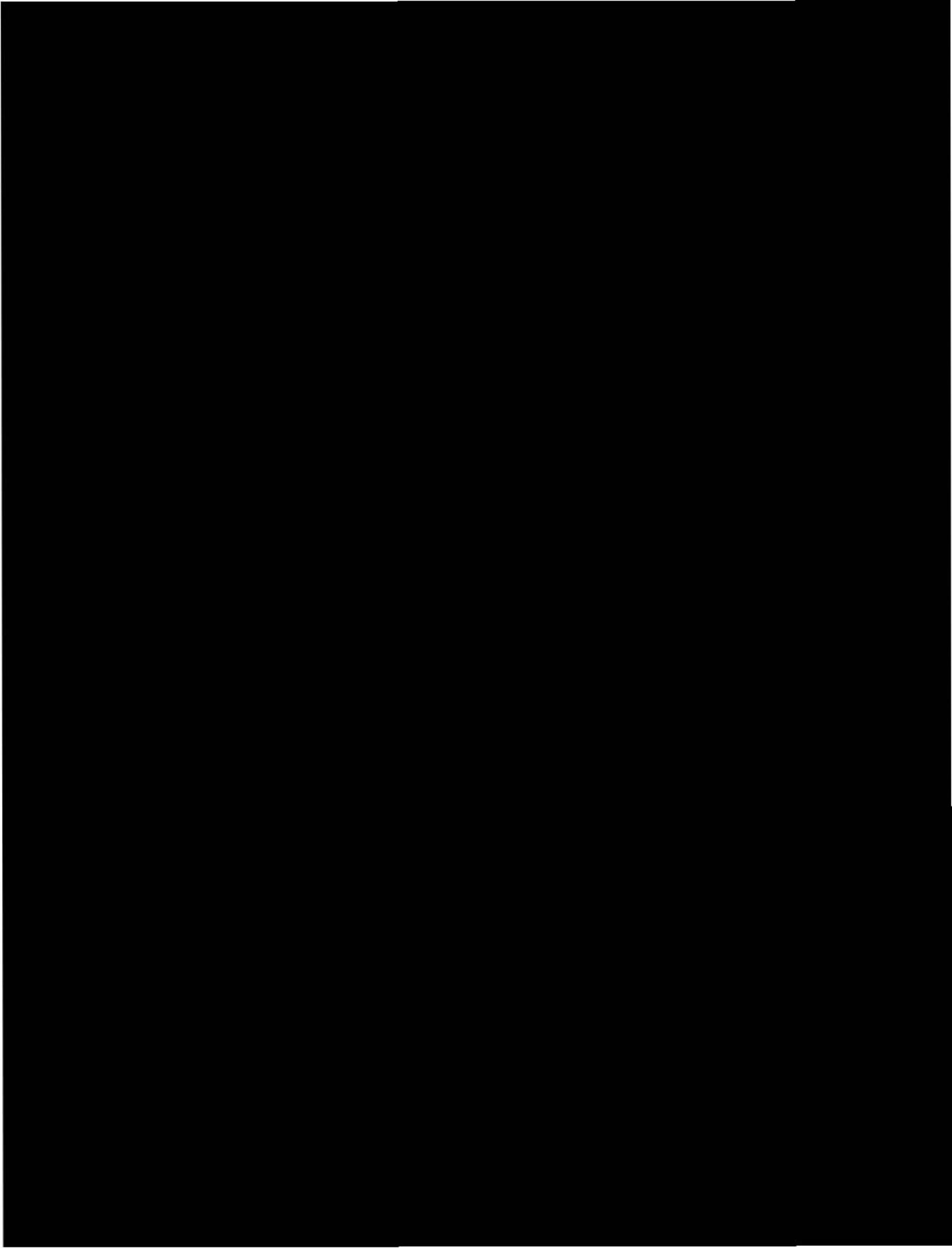
In its Draft Report, the OIG focused on the claims associated with the pharmacy benefits offered during the experience period. The experience period for PacifiCare of California for the 2005 Contract Year is April 1, 2003 to March 31, 2004 (the "Experience Period"). The Draft Report addressed the claims associated with the level of Rx benefits that the auditors believe that Federal members received during the first nine months of this Experience Period (the April 1, 2003 to December 31, 2003 months). In reviewing the Federal Rx benefits for the Experience Period, the auditors concluded that PacifiCare had incurred costs for a lower Rx benefit level for the first nine months of the Experience Period than for the last three months of the Experience Period, and reduced the Plan's pharmacy trend accordingly-- from [REDACTED] percent to [REDACTED] percent.

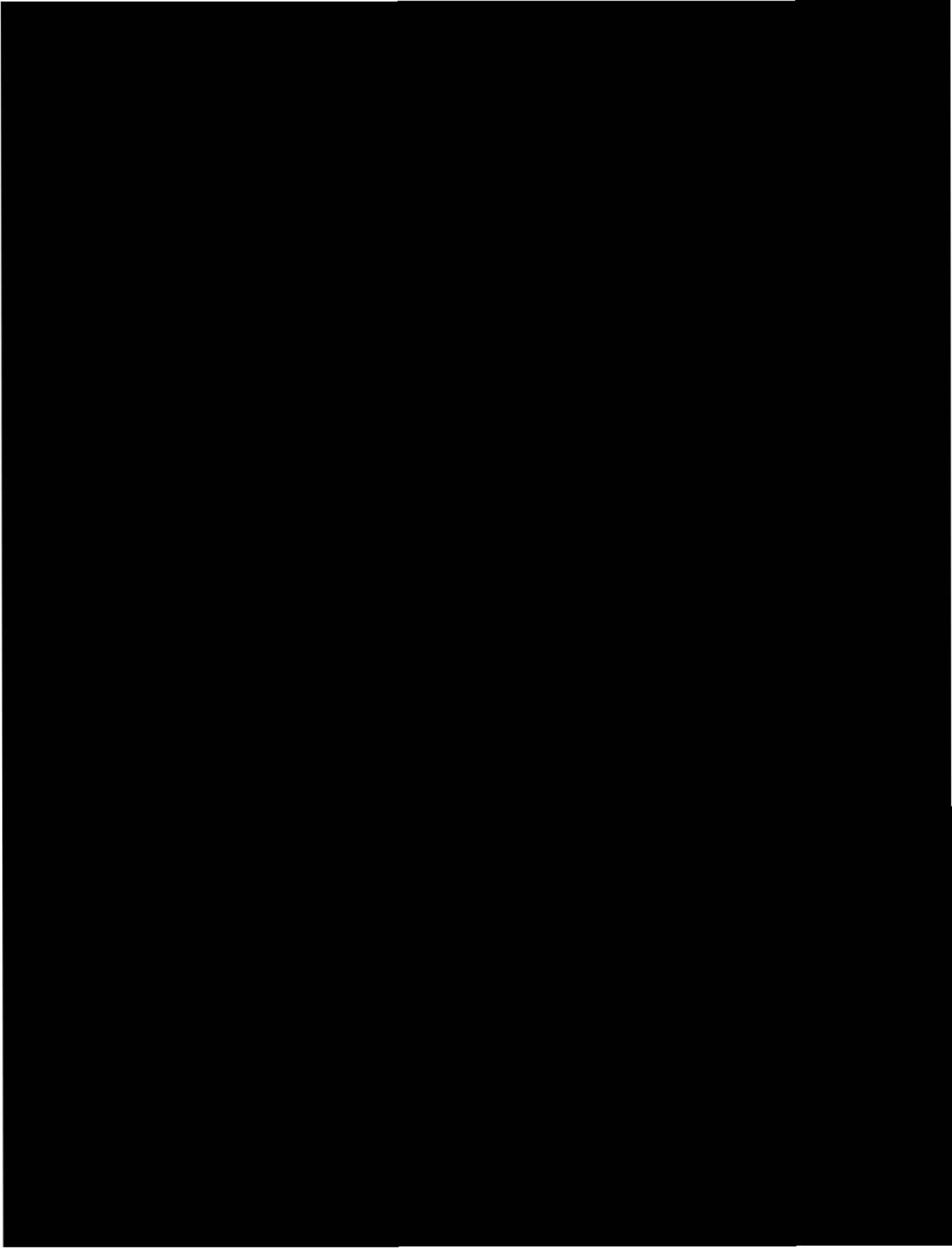
The auditors' conclusion, however, was based on a fundamental misunderstanding on the part of the auditors of PacifiCare of California's rating methodology, and the manner in which the Plan calculated the [REDACTED] percent trend. The Plan's response to this issue is discussed below in the Plan's clarification of its methodology.

The following is a clarification of PacifiCare of California's rating methodology.

PacifiCare of California's Methodology

The Plan calculated its [REDACTED]





OPM/OIG Auditors' Methodology

The above is a detailed discussion of the methodology used by PacifiCare of California to develop the 2005 pharmacy benefit premium. As stated earlier in this Response, it appears that the auditors did not recognize the Plan's methodology. As a result, the auditors did not apply the Plan's methodology when the auditors computed their trend factor. Instead, the auditors calculated their trend factor using the auditors' own methodology (using [REDACTED] percent for the first 9 months of the experience period and [REDACTED] percent for the last 3 months), which produced an understated trend.

Discussion Summary

In building its rates for the 2005 Contract Year, PacifiCare of California recognized [REDACTED]. In order to protect the FEHBP from any rate disadvantages because of this pricing differential, the [REDACTED]. The auditors, however, in preparing their own trend calculation used a different methodology which understated the trend. The Plan's [REDACTED] percent pharmacy trend factor is therefore appropriate.

PacifiCare has provided the above detailed description of how it calculated its pharmacy benefit trend and maintains that its calculation is correct. The Plan therefore requests that OIG reevaluate its audit adjustments based on its findings and reverse those adjustments.

LOST INVESTMENT INCOME

OPM/OIG has asserted that it is entitled to recover lost investment income on the defective pricing for CY 2005. It has calculated that amount to be \$256,929 for the period beginning January 1, 2005 through March 31, 2008, plus additional amounts beginning April 1, 2008, until the funds have been returned to FEHBP. The Plan agrees that the FEHBP is entitled to lost investment income on any overpayments actually due to FEHBP. However, the Plan disputes all of the adjustments recommended by OPM/OIG in this Final Report. The Plan, nevertheless, has discovered an overpayment by the FEHBP, as described above in this response letter, and therefore believes that any lost investment income due the FEHBP is only for the amounts of that overpayment.

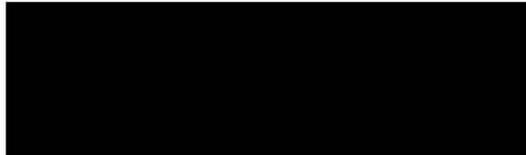
CONCLUSION

In conclusion, PacifiCare has reviewed OPM/OIG's findings for CY 2005, along with supporting documents provided by the auditors. Based on our review of the information, PacifiCare has determined that, except where the Plan has admitted an error, there are no amounts due the FEHBP for any of the audited years.

Once you have had an opportunity to review our analysis, please contact me at the address, phone number or e-mail on this letterhead if you have any questions or require additional information or support. Thank you for your ongoing cooperation.

Very truly yours,

LOCKE, LORD, BISSELL & LIDDELL LLP



Attached Exhibits

cc: [REDACTED]
Director, Underwriting
UnitedHealthcare

[REDACTED]
Manager, Underwriting
UnitedHealthcare