U.S. Office of Personnel Management

Office of the Inspector General

Office of Audits

Final Audit Report

Audit of the Federal Employees Health Benefits Program Operations at MercyCare Health Plans

Report Number 2022-CRAG-004
February 2, 2023

Executive Summary

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Why Did We Conduct the Audit?

The primary objective of the audit was to determine whether MercyCare Health Plans (Plan) complied with the provisions of its contract and the laws and regulations governing the Federal Employees Health Benefits Program (FEHBP). To accomplish this objective, we verified whether the FEHBP premium rates were developed in accordance with contract regulations and rating instructions established by the U.S. Office of Personnel Management (OPM).

What Did We Audit?

Under Contract CS 2926, the Office of the Inspector General completed a performance audit of the FEHBP premium rate developments for contract years 2019 and 2020. We conducted our audit fieldwork remotely from February 7, 2022, through July 6, 2022.

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Assistant Inspector General for Audits

What Did We Find?

We determined that MercyCare Health Plans' 2019 and 2020, plan code EY, Certificates of Accurate Pricing were defective due to missing source documentation that rendered the entire 2019 premium rate development and portions of the 2020 premium rate development unauditable.

The 2019 record retention issues had no related questioned costs, since there were no premium increases or benefit changes from the prior year; however, the 2020 premium rate development included overstated reserve costs, overstated capitation rates, and an overstated demographic factor. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium rate adjustment of $103,555 for contract year 2020 due to defective pricing. In addition, the FEHBP is due lost investment income of $4,547 on the premium overpayments.

Finally, we reviewed the Plan's enrollment process to verify the reliability of the enrollment reports used in the 2019 and 2020 FEHBP rate developments. We determined that the Plan was not in compliance with dependent termination extension of coverage requirements and the Centralized Enrollment Clearinghouse System process requirements specified in its contract with OPM.

The Plan is no longer participating in the FEHBP as of January 1, 2020.

Abbreviations

CFR	**Code of Federal Regulations**
CLER	**Centralized Enrollment Clearinghouse System**
Contract	**OPM Contract CS 2926**
FEHBAR	**Federal Employees Health Benefits Acquisition Regulations**
FEHBP	**Federal Employees Health Benefits Program**
IBNR	**Incurred but Not Reported**
LII	**Lost Investment Income**
MLR	**Medical Loss Ratio**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
Plan	**MercyCare Health Plans**
PMPM	**Per Member Per Month**

Table of Contents

I. Background

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at MercyCare Health Plans (Plan), plan code EY. The audit was conducted pursuant to the provisions of Contracts CS 2926 (Contract); 5 United States Code Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit covered contract years 2019 and 2020 and was conducted remotely by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG) staff.

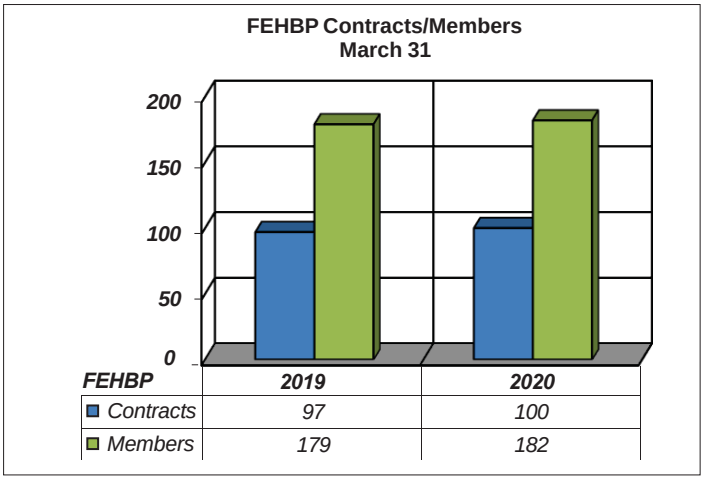
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for Federal employees, annuitants, and dependents, and is administered by the OPM Healthcare and Insurance Office. The provisions of the Federal Employees Health Benefits Act are implemented by OPM through regulations codified in 5 CFR Chapter 1, Part 890. Health insurance coverage is provided through contracts with health insurance carriers that provide service benefits, indemnity benefits, or comprehensive medical services.

In April 2012, OPM issued a final rule establishing an FEHBP-specific Medical Loss Ratio (MLR) requirement to replace the similarly-sized subscriber group comparison requirement for most community-rated FEHBP carriers (77 Federal Register 19522). The MLR was established to ensure that health plans are meeting specified thresholds for spending on medical care and health care quality improvement measures, and thus limiting spending on administrative costs, such as executive salaries, overhead, and marketing of the health plan. The FEHBP-specific MLR rules are based on the MLR standards established by the Affordable Care Act (P.L. 111-148) and defined by the U.S. Department of Health and Human Services in 45 CFR Part 158.

The premium rates charged to the FEHBP under the MLR methodology should be developed in accordance with OPM Rules and Regulations and the Plan's state-filed standard rating methodology (or if the rating method does not require state filing, the Plan's documented and established rating methodology). All FEHBP pricing data are to be supported by accurate, complete, and current documentation. A rating methodology is defined as a series of well-defined procedures a carrier follows to determine the rates it will charge to its subscriber groups. Further, an independent professional must be able to follow the carriers' procedures and reach the same conclusion. OPM negotiates benefits and rates with each plan annually and all rate agreements between OPM and the carrier are subject to audit by the OPM OIG. The results of such audits may require modifications to previous agreements and subsequent rate adjustments.

Community-rated carriers participating in the FEHBP are subject to various Federal, state, and local laws, regulations, and ordinances. In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The number of FEHBP contracts and members reported by the Plan as of March 31 for each contract year audited is shown in the chart to the right.



FEHBP	2019	2020
Contracts	97	100
Members	179	182

The Plan has been in existence since 1994 and provides health benefits to FEHBP members in Boone and Winnebago Counties in Illinois and Rock, Walworth, Jefferson and Green Counties in Wisconsin.

The Plan has not previously been audited by our office, nor required to file their reconciliations with OPM based on their enrollment. This is a limited scope, close-out audit as the Plan dropped from the FEHBP effective January 1, 2021. Our review during this audit was limited to the Plan's premium rate developments and related policies and procedures.

The preliminary results of this audit were communicated to Plan officials during the Notice of Finding and Recommendations (NFR) process as well as a draft report. The Plan's comments, if any, to both the NFR's and draft report were considered in the preparation of this report and are included, as appropriate, in the report. Additionally, we discussed the issues outlined in this report with Plan officials during the Exit Conference.

II. Objectives, Scope, and Methodology

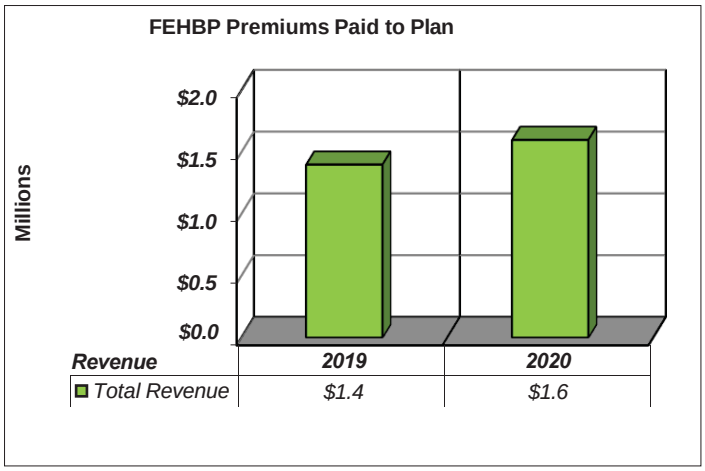
Objectives

The primary objective of this performance audit was to determine whether the Plan complied with the provisions of its Contract and the laws and regulations governing the FEHBP. Specifically, we verified whether the Plan developed its FEHBP premium rates in accordance with the applicable regulations and rating instructions established by OPM.

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 2019 and 2020. For these years, the FEHBP paid approximately $3.0 million in premiums to the Plan.



The OIG's audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the 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. Our review of internal controls was limited to the procedures the Plan has in place to ensure that:

- the premium rate calculations were accurate, complete, and valid;
- medical claims were processed accurately;
- appropriate allocation methods were used; and
- any other costs associated with its premium rate calculations were appropriate.

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 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.

We remotely conducted our audit fieldwork from February 7, 2022, through July 6, 2022.

Methodology

We examined the Plan's premium rate calculations and related documents as a basis for validating the premium rates. Further, we examined medical claim payments, pharmacy rebates, completion factors, benefit factors, trends, administrative expenses, and any other applicable expenses considered in the calculation of the premium rates to verify that the cost data used was accurate, complete, and valid. Finally, we used the Contract, the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), the OPM rate instructions, and applicable Federal regulations to determine the propriety of the Plan's premium rate calculations.

To gain an understanding of the internal controls over the Plan's premium rate processes as well as its claims processing system, we reviewed the Plan's premium rate development and claims processing policies and procedures. We also interviewed appropriate Plan officials regarding the controls in place to ensure that the premium rate calculations and claims pricing were completed accurately and appropriately. Other auditing procedures were performed as necessary to meet our audit objectives.

III. Audit Findings and Recommendations

A. Premium Rate Review

Carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the cost or pricing data submitted in support of the FEHBP rates were developed in accordance with the requirements of 48 CFR, Chapter 16 and the FEHBP Contract CS 2926 (Contract). We determined that the Plan's 2019 and 2020 Certificates of Accurate Pricing for plan code EY were defective due to missing source documentation, overstated reserve costs, overstated capitation rates, an overstated demographic factor, and non-compliance with various sections of the Contract. The monetary findings associated with the 2019 record retention issues were immaterial to the overall premium rate calculations; therefore, they are procedural in nature in terms of this report. However, application of the defective pricing remedy shows that the FEHBP is entitled to a premium rate adjustment for contract year 2020 totaling $108,102, including $4,547 for Lost Investment Income (LII).

1. Defective Pricing: $103,555

During our review of the Plan's 2020 premium rate development, we identified issues that resulted in lower audited premium rates than what was submitted by the Plan. This resulted in a reduction of the Plan's premiums. The specific issues that led to the overpaid premiums are discussed below.

a. Claims Reserve Calculation Error

The Plan included prepaid claims amounts, representing capitated benefit costs, in the calculation of the claim reserves, which is the amount held to pay incurred but not reported (IBNR) claims. Since the Plan defines the prepaid claims expense as an amount that would have been paid if there were no capitation arrangement, prepaid claims do not meet OPM's Community-Rating Guidelines which require the premium rates be developed on actual FEHBP claims data. Furthermore, since prepaid claims are capitated and therefore known and prepaid, calculating a reserve to pay for these types of costs is not warranted. As such, we recalculated the reserve amount, excluding the prepaid totals, and found that the Plan's 2020 reserve total of $155,738 was overstated by $108,936. We applied the reserve difference of $46,802 in our audited 2020 premium rate calculation.

Plan Response:

The Plan does not agree with this finding. Specifically, the Plan states, "MercyCare applied an additional claims-based charge that was proportional to the actual dollar amount of claims capitated. [redacted]

period, OPM saved over $1,100,000 due to this arrangement, resulting in a far lower renewal calculation as a result.

[redacted]

OPM received incredible value from MercyCare's capitation agreement, [redacted] while the insured OPM population with MercyCare was skewed significantly towards higher-than-average cost demographics."

Furthermore, the Plan added, [redacted] It is readily understandable how over the long term, one party to such a fixed arrangement will not want to absorb ongoing losses and will re-negotiate a higher fixed rate as a result. OPM obtained a significant advantage through MercyCare's contract [redacted] while OPM's population was highly skewed towards an older and more costly demographic. This was the reasoning for the utilization based charge included in the rating calculation."

OIG Comment:

[redacted] Since Mercy Health Corporation owns MercyCare Insurance Company and MercyCare HMO, Inc., [redacted] As such, it is unclear how the Plan's statement, "The purpose of this charge is to reflect the upward pressure certain groups put on the capitation rate and the ability for MercyCare to negotiate a competitive capitation rate for future years," validates the application of reserve charges above the actual capitated expenses.

As expressed in the initial finding, OPM's Community Rating Guidelines specify, "A carrier using ACR [Adjusted Community Rating] must use a method based on utilization data or a prospective method based on actual Federal claims data." The inclusion of reserves costs on contracted capitated expenses as part of the experience claims used to determine FEHBP premium rates does not meet the requirements of OPM's Community Rating Guidelines or the Contract.

b. Capitation Rate Error

A portion of the Plan's FEHBP premium rate development was based on capitation payments [redacted]. When verifying the capitated cost of these services, we found that the Plan applied an estimated capitation cost that could not be supported with source documentation. Additionally, we found that the actual capitated rates in the contract were less than the amount of capitation the Plan applied in the 2020 premium rate development, and that the 2020 capitation contract was not effective until March 1, 2020. As such, the 2019 capitated rates were still in place and effective for the first two months of 2020.

Since the Plan could not support the development of the estimated capitation costs applied in the 2020 FEHBP rate development, we utilized the 2019 and 2020 capitated contracts and rates in our audited calculations and determined that the [redacted] capitated costs were overstated by $0.79 and $2.80 per member per month (PMPM) respectively.

Plan Response:

The Plan disagrees with this finding. Specifically, it stated, "The OPM plan for 2020 was not a retrospectively rated plan. As with all provider costs, future plan benefit costs must be estimated or projected at the time of rating. When the rates for OPM's 2020 plan were developed, the future capitation rate, including the implementation date of any change in that rate, was not known. It is inappropriate to retrospectively change the 2020 OPM plan rating because the capitation rate later turned out to be different than what was projected. Had the capitation rate been negotiated at a higher rate than assumed during rating, it would have been equally inappropriate to retrospectively increase the 2020 OPM rate.

Furthermore, as OPM is aware, the comparative groups were rated with identical capitation rate assumptions. It would appear that in this case, OPM is asking for inconsistent rating as it applies to capitation simply because the inconsistency would benefit the 2020 OPM rate calculation."

The Plan additionally stated, "The 2019 capitation rates were applicable for the period January 1, 2019, through February 29, 2020 … , since the 2020 capitated benefit contract was not signed and effective [redacted] until March 1, 2020. ***However, MercyCare did not know that at the time OPM's 2020 rates were prepared in May of 2019.*** **Historically, capitation rates and other aspects of provider reimbursement have been updated [redacted] on a calendar year basis. The same process was expected for the calendar year 2020**

updates, but for unforeseen reasons that process was delayed by two months. That does not invalidate MercyCare's projection as of May 2019.

Why would a plan who works with a key provider to update reimbursement terms annually on January 1st not anticipate an update for a future year?

We have never heard of a plan developing rates for a future period based not on what the provider reimbursement is expected to be in that future period but instead based on what the provider reimbursement is currently.

Every MercyCare group is rated based on a good faith estimate of future provider costs and yet in this one area, OIG expects MercyCare to rate inconsistently with how other groups were/are rated and to rate based not on future expected costs but instead based on what costs turned out to be, a factor that could not have been known at the time of rating. This is wholly inappropriate. The capitation rates used in the 2020 FEHBP rate development were fully supported as a good faith estimate of future cost as of May 2019.

Were the situation reversed and MercyCare incurred capitation costs higher than anticipated, we are confident that OIG would agree that our renewal projection would govern and would not allow a revision based on the changed circumstance."

OIG Comment:

We do not agree that the Plan "fully supported as a good faith estimate" the future costs of the 2020 capitation rates, since the Plan was unable to support the calculations of the estimates used in the rates. Furthermore, it is unclear why the Plan did not utilize the 2019 capitated benefit rates as a basis for projecting the capitated costs for 2020, when the 2019 capitation rates were known and available at the time the Plan proposed 2020 premium rates for the FEHBP. Since the Plan could not support the capitated rates applied in the 2020 FEHBP rate development or the methodology used to determine the greater than contracted capitated rates, we utilized the 2019 and 2020 contracted capitated rates in our audited rate development.

c. Demographic Factor Calculation Error

The Plan calculated and applied a demographic factor to the 2020 FEHBP premium rates that was not supported by the membership report provided during the audit. We recalculated the demographic factor using the membership data provided and the Plan's demographic factor methodology and found that the applicable demographic factor was .9698 instead of the Plan's reported amount of .9799. We applied our audited demographic factor in the 2020 premium rate calculation.

Plan Response:

The Plan disagrees with the finding and asserts that the OIG did not calculate the demographic factor in the same manner as the Plan calculated the factor in its large group rating formula. Specifically, the Plan stated, "The change in demographics should be calculated as a ratio of the current demographic factor to the average demographic factor during the experience period."

Furthermore, the Plan added, "OIG's calculation is inconsistent with MercyCare's rating formula, inconsistent with how MercyCare rated similar large groups and simply nonsensical within the framework of the rate calculation."

Utilizing the factors from the audit, the Plan believes, "These are demographic factors, they are multiplied and divided, not added and subtracted. … In the 'Per Audit' rate calculation that OIG put together using the incorrect 0.9698 'Demographic Adjustment' (sic), you can see that this set of four factors/adjustments are all multiplied together. Mathematically, it would make no sense to insert the difference in demographics here, as opposed to the ratio which is what the plan used. Using the difference instead of the ratio is inconsistent with our rating formula and with how our other groups are rated. OIG has no basis for retrospectively changing our rating formula. Since OIG's monetary findings are based on a defective audit calculation, the requested premium rate adjustment is invalidated."

OIG Comment:

The OIG maintains that the audited demographic factor was recalculated based on membership support provided by the Plan and the methodology shown in the Plan's rating model. We agree that the change in demographics should be calculated as a ratio of the current demographic factor to the experience demographic factor. As such, we calculated an experience demographic factor and a current demographic factor, dividing the current by the experience to arrive at .9698. This is the Plan's methodology that we applied in our audit workpapers. The variance of .0101 between the Plan's demographic factor of .9799 and the audited demographic factor of .9698 is attributable to the difference in membership used in the calculations and has no bearing on the calculation itself. The 2020 Rate Instructions state, "OPM requires all Carriers to maintain documentation to support all calculations and statements pertaining to the reconciliation." Since the Plan did not store the enrollment reports used to develop the demographic factor at the time of rating, we relied on the Plan's recreated membership reports at the time of the audit to complete the calculation.

d. Inconsistent Rating Methodology

In cases where the Plan's standard rating methodology cannot be confirmed, OPM's rating instructions allows the review of comparison groups from the Plan's large group book of business. As such, we selected two groups with 2020 premium rate renewals completed during the time that the FEHBP's 2020 premium rates were developed. We used these comparison groups only to confirm that the large group rating factors were consistently applied; however, we found that there were instances where a consistent rating methodology was not utilized by the Plan. Specifically, we found that one group's rate development included a flat PMPM administrative cost that was greater than the FEHBP's, but the variable administrative cost was less. Furthermore, we found on both comparison groups that the calculation of the reserve was not consistently completed and resulted in significantly varied outcomes.

Finally, due to the Plan's inability to support the 2019 FEHBP premium rate development, we could not confirm the current premium rate that the Plan used to determine the "calculation rate change" and the final 2020 premium rates. As such, we calculated a step-up-factor of 1.0694 based on the Plan's reported contracts, members, and tier ratios, and used it to determine the audited 2020 FEHBP premium rates by tier.

Recommendation 1:

We recommend that the Plan return $103,555 to the FEHBP for defective pricing.

Plan Response:

The Plan disagrees with the finding and states, "With regard to the application of a different administrative charge to one of the two comparative groups audited, the group cited was rated prior to the month when OPM (and the other comparative group) was rated. Given that the large group rating formula was being revamped at this time, the timing for this particular group could be the difference in how the comparative group was rated.

With regard to the IBNR calculation and separate from the application of the lag to capitated claims, the completion factors used are updated frequently, usually monthly. At this time in early 2019, the completion factors were high and subject to significant changes on a monthly basis as a result of MercyCare completing an administrative system conversion at the end of 2017 which resulted in a significant claim inventory during 2018 that was being worked down in 2019. The groups that OPM chose to audit to review consistent application of the rating methodology both had their renewals processed in a different month from OPM's and, in fact, a

different month from each other. Since the three groups had their renewals processed in three different months, they used three different sets of completion factor that were very different from each other. This is in no way evidence of an inconsistently applied process."

Additionally, the Plan added, "OIG states that they '"selected two groups with 2020 premium rate renewals completed during the time that FEHBP's 2020 premium rates were developed', but that is not accurate and OIG has previously been told that is not accurate. The groups OIG chose to audit were rated at different times (different months) than the FEHBP.

It is quite normal for both rating factors and even rating methodology to change over time. It would be unusual for two groups with the same rate effective dates and rated during the same month to have different factors, but of course that is not what occurred here. In its audit, OIG selected groups that were rated in a completely different month than the FEHBP and thus some elements of the rate development were different. That in no way suggests an inconsistency in rating unless the expectation is that rating factors cannot be updated ever or the rating methodology may not be refined over time.

Furthermore, it is inconceivable how the use of claim completion factors that are updated monthly can be deemed an inconsistency in rating. The claim completion factors MercyCare uses are developed from our monthly reserving process and thus are best estimates of completed claims based on the most current payment speeds and information regarding incurred but not paid claims. As payment speeds and claim inventories fluctuate from month to month, so does this set of lag factors. As a small company, MercyCare may experience greater fluctuation in processing speed and overall inventory than larger companies, but that does not invalidate the calculated lag factors. Groups rated during the same month will utilize the same lag factors. OPM instead chose groups from different rate process months and thus found different sets of lag factors. This is totally normal, consistent with how other groups were rated and consistent with good rating practice.

Note that OPM's own rules required inconsistency in actual rating methodology. For example, at the time the FEHBP renewal was calculated, MercyCare did not normally subtract pharmacy rebates from claims in experience rating. However, MercyCare deviated from its standard rating in order to satisfy OPM's rating rules."

OIG Comment:

The OIG maintains that the Plan did not utilize a consistent rating methodology which is a requirement for all community-rated Carriers contracting with OPM. In and of itself, the Plan's response above illustrates two examples of inconsistencies in the rating methodology resulting from the Plan's revamping of the large group rating formula and the unresolved timing issues during the administrative system conversion.

Furthermore, the Plan inaccurately asserts that the OIG selected groups outside the time frame of the 2020 FEHBP rate development. We selected two groups from the Plan's provided HMO large group information with renewal dates of January 1, 2020, the same as the FEHBP. Additionally, the Plan released the 2020 rates of the two comparison groups in April and July 2019 respectively, which is within the same time frame of the FEHBP's rates released in June 2019. Large groups with the same renewal date, especially those groups with rates released within months of each other, are the types of groups used to establish what rating method the Plan uses in practice, as discussed in OPM's 2020 Community Rating Guidelines.

2. Lost Investment Income: $4,547

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover Lost Investment Income (LII) on the defective pricing finding in contract year 2020. We determined that the FEHBP is due $4,547 for LII, calculated through November 30, 2022 (See Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning December 1, 2022, until all defective pricing finding amounts have been returned to the FEHBP.

The 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 LII is based on the United States Department of the Treasury's semiannual cost of capital rates.

Recommendation 2:

We recommend that the Plan return $4,547 to the FEHBP for LII, calculated through November 30, 2022. We also recommend that the Plan return LII on amounts due for the

period beginning December 1, 2022, until all defective pricing finding amounts have been returned to the FEHBP.

Plan Response:

The Plan disagrees with the finding and states, "For the reasons described above, MercyCare believes the calculation of defective pricing is itself defective and thus the calculation of Lost Investment Income likewise defective."

OIG Comment:

We maintain that the Plan return LII to the FEHBP, based on the reported questioned costs through the periods previously mentioned until all defective pricing amounts have been returned to OPM.

3. Record Retention and Compliance Issues: Procedural

During our review of the 2019 and 2020 FEHBP premium rate developments, we determined that the Plan's record retention methodology was not in compliance with the Contract, Sections 1.11, 3.4, and 5.64. Specifically, the Plan did not maintain the information and support used to develop the 2019 FEHBP premium rates. Furthermore, for contract year 2020, the pharmacy rebate support, the signed service agreement for capitated benefits, and the signed certificate of accurate pricing were not retained or provided during the course of the audit.

Contract Section 1.11 (b) states, "The [Plan] shall maintain and the [Office of Personnel Management (OPM) Office of the Inspector General (OIG)] shall have the right to examine and audit all books and records relating to the contract for purposes of the [OIG's] determination of the [Plan's] compliance with the terms of the contract, including its payment (including rebate and other financial arrangements) and performance provisions." Additionally, both Contract Section 1.11(b) and 3.4 indicate that the records must be maintained for a retention period specified in the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), 48 Code of Federal Regulations (CFR) 1652.204-70, which is a period of six years for the rate submissions.

Since the Plan was not able to supply the documentation used to develop the 2019 premium rates, we were unable to audit that contract year. Additionally, the Plan could not support the calculation of pharmacy rebates that reduced FEHBP paid claims nor the in-effect capitation rates used to develop the 2020 FEHBP premium rates. Finally, we could not verify that the Plan completed a signed copy of the 2020 Certificate of Accurate pricing as required by the Contract.

Contract Section 5.64 specifies that the Plan must establish an internal control system to facilitate timely discovery of contract compliance issues and promptly institute and carry out

corrective action. Since the Plan was not in compliance with portions of the Contract and did not retain applicable rating support, it is evident that its controls surrounding the FEHBP rate development process were insufficient to meet the terms of the Contract.

Recommendation 3:

If the Plan elects to rejoin the FEHBP, we recommend that it establish documented policies and procedures to strengthen internal controls surrounding the FEHBP premium rate development process and record retention per the terms of the Contract.

Plan Response:

The Plan disagrees with the finding and in response replies, "OIG states that the 2020 Certificate of Accurate Pricing was defective but there is no evidence that OPM requested a 2020 Certificate of Accurate Pricing as outlined in 48 CFR 1615.402(c)(2) nor followed up with the plan regarding not receiving such certificate. Since MercyCare planned to voluntarily leave the program at the end of 2020, MercyCare did not follow the 2021 renewal process which includes submission of the Certificate under OPM's ordinary process."

Furthermore, the Plan states, "Regarding record retention for contract year 2020, OIG was provided support for the pharmacy rebate calculation along with evidence that rebates were indeed subtracted from claims in the experience calculation. It is completely inaccurate to state that support for pharmacy rebates was not provided and misleading to state that MercyCare did not reduce claims by applicable pharmacy rebates. See response to IR #9 dated March 16, 2022.

Also regarding record retention for contract year 2020, OIG was provided a copy of the provider reimbursement arrangement showing the agreement and rates for capitated benefits. OIG does not like that the contract was not signed. However, that does not mean the contract was not valid. The contract was submitted to WI [Wisconsin] regulatory authorities prior to execution as required and indeed both parties performed under the contract. The oversight in formal execution of the contract does not affect its validity. OIG cannot fault MercyCare for not retaining a version of a document that does not exist.

The Plan further adds, "Throughout this long audit process and the dozens of pieces of information requested by OIG and furnished by MercyCare, it is difficult to understand how OIG could find an inability to 'assess the premium paid and benefits received by the FEHBP in contract years 2019 and 2020.' As OIG knows, the benefits received were far greater than the premiums paid and doubly so as a result of the capitation agreement that OIG appears to find fault with. OIG has chosen to cherry-pick elements of the rating process that it chooses to dislike while glossing over the parts of the formula that were very favorable to the FEHBP.

It should be noted that MercyCare's participation in the FEHBP program was discontinued at MercyCare's request."

OIG Comment:

The Plan's non-compliance with the record retention portion of the Contract greatly impeded our ability to assess the premium paid and benefits received by the FEHBP in contract years 2019 and 2020. Although the Plan disagrees with the majority of the record retention finding, it has not provided evidence to date that would indicate the terms of the Contract were sufficiently met.

Premium Rate Review Conclusion

We recalculated the 2020 FEHBP premium rates, adjusting for the issues indicated above, and determined that the rates were overstated by $103,555 due to defective pricing. Additionally, we calculated LII on the defective pricing finding, resulting in an additional $4,547 due, for a total amount due the FEHBP of $108,102. We could not audit the 2019 FEHBP premium rate development due to missing and unverifiable rating documentation. The pricing remedy provides that the prior year premium rates can be utilized to determine questioned costs when current year premium rates cannot be verified; however, we found that there were not any premium increases or benefit changes between contract years 2018 and 2019. As such, there were no questioned costs calculated for contract year 2019; therefore, findings are procedural in nature.

Since the Plan is no longer participating in the FEHBP as of December 31, 2020, we have no means to evaluate prospective recommendations for procedural issues, although it is evident that the Plan's controls surrounding the development of premium rates, including record retention, would be significantly improved by documented standardized procedures.

B. Other Contract Compliance Issues

Carriers proposing rates to OPM are required to provide an additional 31 days of coverage, for no additional premium, when a family member is no longer eligible for coverage in accordance with the requirements of the FEHBP 2019 and 2020 Benefits Brochure which is part of the Contract. In addition, the OPM FEHBP Carrier Handbook advises Carriers to maintain enrollment records that easily identify the number and identity of FEHBP enrollees served by individual payroll offices for control, statistical reporting, and reconciliations. Specifically, Contract Section 1.5(b) requires Carriers to reconcile their enrollment records to those provided by the Government or the FEHB Clearinghouse quarterly in accordance with OPM's guidelines and criteria. We determined that the Plan was not in compliance with dependent termination

extension of coverage requirements and the Centralized Enrollment Clearinghouse System (CLER) process requirements specified in the Contract during the scope of the audit.

1. Untimely Dependent Termination: Procedural

The Plan terminated coverage early for FEHBP members who turned age 26 during 2019 and 2020. Per the 2019 and 2020 FEHBP Benefits Brochure, which is part of OPM's Contract with the Plan, dependent members who turned age 26 were entitled to the 31-day extension of coverage. The Plan did not apply the extension of coverage to dependent members turning age 26. The Plan's Standard Operating Procedure is to terminate the member's coverage on the last day of the month in which the member turns age 26. As a result, dependents were not receiving the full 31-day extension of coverage they were entitled to as disclosed in the FEHBP Benefits Brochure.

2. CLER Reconciliation Issues: Procedural

The Plan did not access or review the quarterly Centralized Enrollment Clearinghouse System (CLER) reports to resolve enrollment discrepancies during the scope of the audit. Contract Section 1.5(b) requires carriers to reconcile their enrollment records to those provided by the Government or the CLER at least quarterly. In addition, the FEHBP Carrier Handbook requires enrollment reconciliation discrepancies posted to the CLER website be resolved between the Carriers and the payroll offices. The carrier must keep the reconciliation results and work papers for inspection by OPM.

Recommendation 4:

If the Plan elects to rejoin the FEHBP, we recommend that OPM require the Plan to codify its enrollment procedures and implement policy and procedure improvements to address the termination and CLER reconciliation issues.

Plan Response:

The Plan did not respond to this finding. However, the Plan had concerns about premium invoice discrepancies related to enrollment and stated, "OPM is one of limited few contracts that are allowed to submit premiums on a self-pay basis. MercyCare bills premium using actual enrollment information as obtained from OPM and maintained by MercyCare. Currently, MercyCare records show that OPM has underpaid premium as compared to the enrollments submitted by OPM in the amount of $55,363.93. This amount represents only payment differences and does not yet include an amount for lost investment income. We have attempted on numerous occasions to obtain the detail records from OPM in order to reconcile these amounts but have had no success in obtaining the reports necessary to do so."

OIG Comment:

The Plan's response above does not address any of the reportable issues we identified during the course of the audit and discussed in this report. It is unclear how the Plan obtained enrollment from OPM to determine premium was underpaid when the Plan was not participating in the CLER process; however, we provided the Plan with a contact in OPM's Contracting Office during the course of the audit to discuss this issue.

Exhibit A

MercyCare Health Plans
Summary of Defective Pricing Questioned Costs

Contract Year 2019	$0
Contract Year 2020	$103,555
Total Defective Pricing Questioned Costs	**$103,555**
Lost Investment Income	$4,547
Total Amount Due to OPM	**$108,102**

Exhibit B

MercyCare Health Plans
2020 Defective Pricing Questioned Costs

High Option

Contract Year 2020	Self	Self + 1	Family
FEHBP Line 5 - Reconciled Rate	$373.81	$803.71	$975.52
FEHBP Line 5 - Audited Rate	$347.65	$747.47	$907.25
Bi-weekly Overcharge	$26.16	$56.24	$68.27
To Annualize Overcharge:			
March 31, 2020 Enrollment	44	437	11
Pay Periods	26	26	26
Subtotal	$29,927	$54,103	$19,525
Total 2020 Defective Pricing			**$103,555**

Exhibit C

MercyCare Health Plans
Lost Investment Income

Lost Investment Income	2020	2021	30-Nov-22	Total
Defective Pricing:	$103,555	$0	$0	$103,555
Cumulative Totals:	$103,555	$103,555	$103,555	$103,555
Average Interest (per year):	1.625%	1.000%	2.813%	
Interest on Prior Years Findings:	$0	$1,036	$2,670	$3,706
Current Years Interest:	$841	$0	$0	$841
Total Cumulative Interest Calculated Through November 30, 2022:	$841	$1,036	$2,670	**$4,547**

Appendix A

MercyCare Health Plans™

Date: August 17, 2022
To: Matthew Knupp, Chief, Community-Rated Audits Group
From: [redacted], MercyCare
Subject: Audit Results Report Number 2022-CRAG-004

This letter contains comments regarding the Audit Results Report Number 2022-CRAG-004

1. **Background**

OPM correctly mentions that the FEHBP plan is subject to the FEHBP-specific Medical Loss Ratio (MLR) requirement and that the "MLR was established to ensure that health plans are meeting specified thresholds for spending on medical care and health care quality improvement measures, and thus limiting spending on administrative costs…" OPM then neglects to mention MercyCare's MLR results for the two years audited, 2019 and 2020. Below are MercyCare's MLR results for the two years audited:

Year	Adjusted MLR	Target MLR
2019	106.75%	85.00%
2020	88.38%	85.00%

As shown above, MercyCare's actual adjusted MLR was far above the required target MLR for the FEHBP plan and thus met spending minimums measured as a percentage of premium. As this information is on file with OPM, MercyCare finds it curious that OPM would bring up the Medical Loss Ratio provision within its audit report yet leave out MercyCare's actual results, particularly since OIG later mentions that they were challenged to "assess the premium paid and benefits received by the FEHBP in contract years 2019 and 2020."

2. Premium Rate Review

a. Defective Certificate of Accurate Pricing

OIG states that the 2020 Certificate of Accurate Pricing was defective but there is no evidence that OPM requested a 2020 Certificate of Accurate Pricing as outlined in 48 CFR 1615.402(c)(2) nor followed up with the plan regarding not receiving such certificate. Since MercyCare planned to voluntarily leave the program at the end of 2020, MercyCare did not follow the 2021 renewal process which includes submission of the Certificate under OPM's ordinary process.

b. Claims Reserve Calculation Error

MercyCare stands by its original response as quoted in the final audit.

As OIG notes, [redacted] It is readily understandable how over the long term, one party to such a fixed arrangement will not want to absorb ongoing losses and will re-negotiate a higher fixed rate as a result. OPM obtained a significant advantage through MercyCare's contract [redacted] as the contract has capitation rates that anticipate an average population demographic while OPM's population was highly skewed towards an older and more costly demographic. This was the reasoning for the utilization based charge included in the rating calculation.

c. Capitation Rate Error

MercyCare stands by its original response as quoted in the final audit.

OIG's response contains several errors.

The 2019 capitation rates were applicable for the period January 1, 2019, through February 29, 2020 (not February 28 as OIG states), since the 2020 capitated benefit contract was not signed and effective [redacted] until March 1, 2020. However, MercyCare did not know that at the time OPM's 2020 rates were prepared in May of 2019. Historically, capitation rates and other aspects of provider reimbursement have been updated [redacted] on a calendar year basis. The same process was expected for the calendar year 2020 updates, but for unforeseen reasons that process was delayed by two months. That does not invalidate MercyCare's projection as of May 2019.

Why would a plan who works with a key provider to update reimbursement terms annually on January 1st not anticipate an update for a future year?

We have never heard of a plan developing rates for a future period based not on what the provider reimbursement is expected to be in that future period but instead based on what the provider reimbursement is currently.

Every MercyCare group is rated based on a good faith estimate of future provider costs and yet in this one area, OIG expects MercyCare to rate inconsistently with how other groups were/are rated and to rate based not on future expected costs but instead based on what costs turned out to be, a factor that could not have been known at the time of rating. This is wholly inappropriate. The capitation rates used in the 2020 FEHBP rate development were fully supported as a good faith estimate of future cost as of May 2019.

Were the situation reversed and MercyCare incurred capitation costs higher than anticipated, we are confident that OIG would agree that our renewal projection would govern and would not allow a revision based on the changed circumstance.

d. Demographic Factor Calculation Error

MercyCare stands by its original response as quoted in the final audit.

OIG's calculation is inconsistent with MercyCare's rating formula, inconsistent with how MercyCare rated similar large groups and simply nonsensical within the framework of the rate calculation.

Once again, we demonstrate the difference in the calculations below using only OIG "Per Audit" factors:

	Per Audit
Experience Period	1.5763
Current (March 2019)	1.5460

OIG (erroneous) Calculation = 1+ (1.5460 - 1.5763) = 0.9698
Plan (correct) Calculation = 1.5460 / 1.5763 = 0.9808

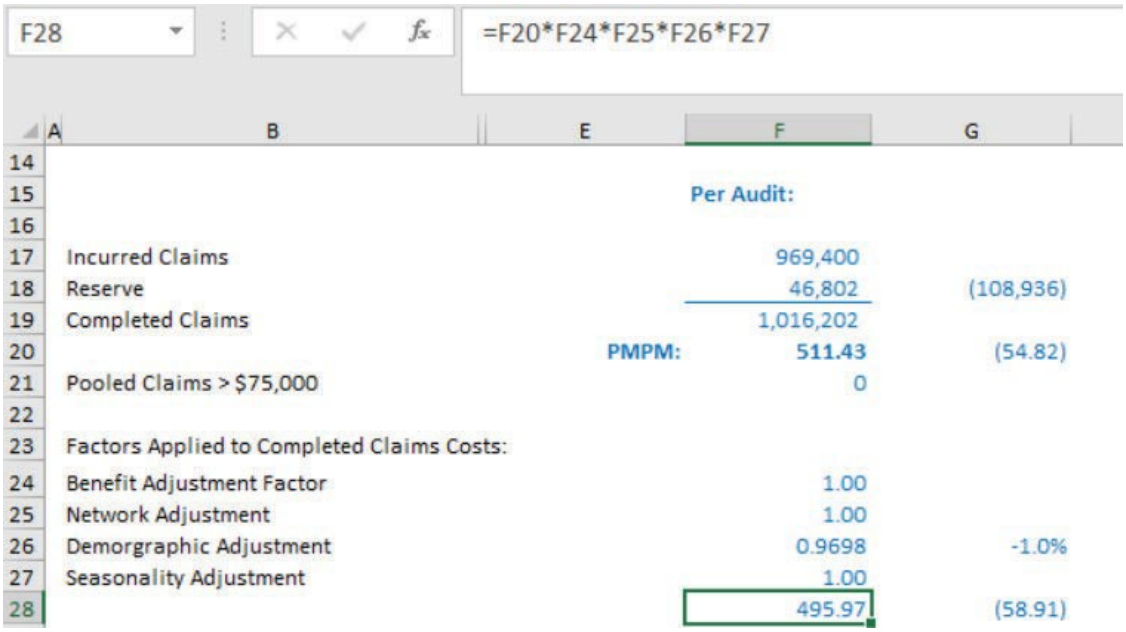
These are demographic factors, they are multiplied and divided, not added and subtracted.

For example and using round numbers, if the experience period had a demographic factor of 3.0 and the current demographic factor was 2.0 where those figures represent multiples of a standard cost, we would calculate that the demographic factor as 0.66 = (2.0 / 3.0) indicating that expected future cost is

0.66 or 66% of past cost based on demographics alone as the current demographics are (1.00 – 0.66) = 0.34 = 34% less than what existed previously.

Using OIG's erroneous math, the same calculation would be 1 + (2.0 – 3.0) = 0 which of course is nonsensical.

In the "Per Audit" rate calculation that OIG put together using the incorrect 0.9698 "Demographic Adjustment" (sic), you can see that this set of four factors/adjustments are all multiplied together. Mathematically, it would make no sense to insert the difference in demographics here, as opposed to the ratio which is what the plan used. Using the difference instead of the ratio is inconsistent with our rating formula and with how our other groups are rated. OIG has no basis for retrospectively changing our rating formula. Since OIG's monetary findings are based on a defective audit calculation, the requested premium rate adjustment is invalidated.



	A	B	E	F	G
14					
15				Per Audit:	
16					
17		Incurred Claims		969,400	
18		Reserve		46,802	(108,936)
19		Completed Claims		1,016,202	
20			PMPM:	511.43	(54.82)
21		Pooled Claims > $75,000		0	
22					
23		Factors Applied to Completed Claims Costs:			
24		Benefit Adjustment Factor		1.00	
25		Network Adjustment		1.00	
26		Demorgraphic Adjustment		0.9698	-1.0%
27		Seasonality Adjustment		1.00	
28				495.97	(58.91)

e. Inconsistent Rating Methodology

MercyCare stands by its original response as quoted in the final audit.

OIG states that they "selected two groups with 2020 premium rate renewals completed during the time that FEHBP's 2020 premium rates were developed", but that is not accurate and OIG has previously been told that is not accurate. The groups OIG chose to audit were rated at different times (different months) than the FEHBP.

It is quite normal for both rating factors and even rating methodology to change over time. It would be unusual for two groups with the same rate effective dates and rated during the same month to have different factors, but of course that is not what occurred here. In its audit, OIG selected groups that were rated in a completely different month than the FEHBP and thus some elements of the rate development were different. That in no way suggests an inconsistency in rating unless the expectation is that rating factors cannot be updated ever or the rating methodology may not be refined over time.

Furthermore, it is inconceivable how the use of claim completion factors that are updated monthly can be deemed an inconsistency in rating. The claim completion factors MercyCare uses are developed from our monthly reserving process and thus are best estimates of completed claims based on the most current payment speeds and information regarding incurred but not paid claims. As payment speeds and claim inventories fluctuate from month to month, so does this set of lag factors. As a small company, MercyCare may experience greater fluctuation in processing speed and overall inventory than larger companies, but that does not invalidate the calculated lag factors. Groups rated during the same month will utilize the same lag factors. OPM instead chose groups from different rate process months and thus found different sets of lag factors. This is totally normal, consistent with how other groups were rated and consistent with good rating practice.

Note that OPM's own rules required inconsistency in actual rating methodology. For example, at the time the FEHBP renewal was calculated, MercyCare did not normally subtract pharmacy rebates from claims in experience rating. However, MercyCare deviated from its standard rating in order to satisfy OPM's rating rules.

f. Lost Investment Income

For the reasons described above, MercyCare believes the calculation of defective pricing is itself defective and thus the calculation of Lost Investment Income likewise defective.

g. Record Retention and Compliance Issues

Regarding record retention for contract year 2020, OIG was provided support for the pharmacy rebate calculation along with evidence that rebates were indeed subtracted from claims in the experience calculation. It is completely inaccurate to state that support for pharmacy rebates was not provided and misleading to state that MercyCare did not reduce claims by applicable pharmacy rebates. See response to IR #9 dated March 16, 2022.

Also regarding record retention for contract year 2020, OIG was provided a copy of the provider reimbursement arrangement showing the agreement and rates for capitated benefits. OIG does not like that the contract was not signed. However, that does not mean the contract was not valid. The contract was submitted to WI regulatory authorities prior to execution as required and indeed both parties performed under the contract. The oversight in formal execution of the contract does not affect its validity. OIG cannot fault MercyCare for not retaining a version of a document that does not exist.

h. Recommendation 3

Throughout this long audit process and the dozens of pieces of information requested by OIG and furnished by MercyCare, it is difficult to understand how OIG could find an inability to "assess the premium paid and benefits received by the FEHBP in contract years 2019 and 2020." As OIG knows, the benefits received were far greater than the premiums paid and doubly so as a result of the capitation agreement that OIG appears to find fault with. OIG has chosen to cherry-pick elements of the rating process that it chooses to dislike while glossing over the parts of the formula that were very favorable to the FEHBP.

It should be noted that MercyCare's participation in the FEHBP program was discontinued at MercyCare's request.

Appendix B

Below are the Plan's responses to the Notice of Findings and Recommendations that were issued during the audit fieldwork, as applicable to the final report.

Plan's Response to NFR #1 – Received by the OIG on May 19, 2022

Recommendation

We recommend that OPM require the Plan codify its rating procedures and implement policy and procedure improvements to address the reported issues prior to re-entry into the FEHBP.

Auditee Response

Plan Management does not concur with the factual accuracy of the audit issues.
Plan Management does not concur with the recommendation.

Additional Plan Comments:

The Plan acknowledges that they did not maintain the information and support used to develop the 2019 FEHBP premium rates due to staff turnover.

However, the Plan disagrees with the remainder of the OPM findings and recommendation.

Estimated pharmacy rebate credit is applied to the OPM claims experience as the Plan does not receive a workable file of rebates by group.

The Plan acknowledges that they did not have a signed service agreement for capitated benefits although an agreement was in place.

The Plan did not sign a Certificate of Accurate Pricing because they planned to exit the FEHBP in the spring of 2021. The Plan also expected a follow-up from OPM requesting this support as part of OPM's process.

Plan's Response to NFR #2 – Received by the OIG on June 8, 2022

Recommendation

We recommend that the Plan return $103,563 to the FEHBP for defective pricing and $2,438 for LII, calculated through April 30, 2022. We also recommend recovery on LII amounts due for the period beginning May 1, 2022 until all defective pricing amounts have been returned to the FEHBP.

Auditee Response

Plan Management does not concur with the factual accuracy of the audit issues.
Plan Management does not concur with the recommendation.

Additional Plan Comments:

1. Claims Completion Charge.

MercyCare applied an additional claims-based charge that was proportional to the actual dollar amount of claims capitated. The purpose of this charge is to reflect the upward pressure that certain groups put on the capitation rate and the ability for MercyCare to negotiate a competitive capitation rate for future years. During the experience period, OPM saved over $1,100,000 due to this arrangement, resulting in a far lower renewal calculation as a result.

This charge was added consistently for the comparative groups.

OPM received incredible value from MercyCare's capitation agreement, in part because the capitation rates are not age-rated while the insured OPM population with MercyCare was skewed significantly towards higher than average cost demographics.

2. 2020 Capitation

NFR #2 states that in developing the rate, MercyCare used a capitation rate that was higher than actual for 2020.

The OPM plan for 2020 was not a retrospectively rated plan. As with all provider costs, future plan benefit costs must be estimated or projected at the time of rating. When the rates for OPM's 2020 plan were developed, the future capitation rate, including the implementation date of any change in that rate, was not known. It is inappropriate to retrospectively change the 2020 OPM plan rating because the capitation rate later turned out to be different than what was projected. Had the capitation rate been negotiated at a higher rate than assumed during rating, it would have been equally inappropriate to retrospectively increase the 2020 OPM rate.

Furthermore, as OPM is aware, the comparative groups were rated with identical capitation rate assumptions. It would appear that in this case, OPM is asking for inconsistent rating as it applies to capitation simply because the inconsistency would benefit the 2020 OPM rate calculation.

3. Calculation of Demographic Factor

NFR #2 does not calculate the change in demographics correctly or consistently with how MercyCare calculates the factor in its large group rating formula.

The change in demographics should be calculated as a ratio of the current demographic factor to the average demographic factor during the experience period.

Using the factors from the audit, March 2019 Factor (per audit)1.546 Experience Period Factor (per audit)1.576 0.9808, the new change in demographic factor is 0.0110 higher than the factor from the audit.

4. Inconsistent Rating Methodology

NFR #2 states that OPM found "that there were instances where a consistently rating methodology was not utilized by the Plan." There were two situations cited, one involving administrative expenses and the other with regard to the IBNR calculation.

With regard to the application of a different administrative charge to one of the two comparative groups audited, the group cited was rated prior to the month when OPM (and the other comparative group) was rated. Given that the large group rating formula was being revamped at this time, the timing for this particular group could be the difference in how the comparative group was rated.

With regard to the IBNR calculation and separate from the application of the lag to capitated claims, the completion factors used are updated frequently, usually monthly. At this time in early 2019, the completion factors were high and subject to significant changes on a monthly basis as a result of MercyCare completing an administrative system conversion at the end of 2017 which resulted in a significant claim inventory during 2018 that was being worked down in 2019. The groups that OPM chose to audit to review consistent application of the rating methodology both had their renewals processed in a different month from OPM's and, in fact, a different month from each other. Since the three groups had their renewals processed in three different months, they used three different sets of completion factor that were very different from each other. This is in no way evidence of an inconsistently applied process.

5. Premium Invoice Discrepancies

OPM is one of limited few contracts that are allowed to submit premiums on a self-pay basis. MercyCare bills premium using actual enrollment information as obtained from OPM and maintained by MercyCare. Currently, MercyCare records show that OPM has underpaid premium as compared to the enrollments submitted by OPM in the amount of $55,363.93. This amount represents only payment differences and does not yet include an amount for lost investment income. We have attempted on numerous occasions to obtain the detail records from OPM in order to reconcile these amounts but have had no success in obtaining the reports necessary to do so.

Report Fraud, Waste, and Mismanagement

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