



---

**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 BLUE CARE  
NETWORK OF MICHIGAN, INC. - EAST REGION**

Report Number 1C-K5-00-15-007  
August 28, 2015

-- CAUTION --

*This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage (<http://www.opm.gov/our-inspector-general>), caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.*

# EXECUTIVE SUMMARY

## *Audit of the Federal Employees Health Benefits Program Operations at Blue Care Network of Michigan, Inc. – East Region*

Report No. 1C-K5-00-15-007

August 28, 2015

### **Why Did We Conduct the Audit?**

The primary objectives of the audit were to determine if Blue Care Network of Michigan, Inc. – East Region (Plan) offered the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current pricing data, and that the rates were equivalent to the Plan's Similarly Sized Subscriber Groups (SSSGs), as provided in Federal Employees Health Benefits Acquisition Regulation 1652.215-70(a). Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

### **What Did We Audit?**

Under contract CS 2011, the Office of the Inspector General completed a performance audit of the FEHBP's rates offered for contract years 2009 through 2012. Our audit fieldwork was conducted from October 20, 2014 through October 31, 2014 at the Plan's office in Southfield, Michigan.



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

### **What Did We Find?**

This report questions \$65,824 for inappropriate health benefit charges to the FEHBP in contract year 2009. The questioned amount includes \$57,270 for defective pricing and \$8,554 due the FEHBP for lost investment income, calculated through June 30, 2015. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the U.S. Office of Personnel Management's (OPM) Rate Instructions to Community-Rated Carriers for contract years 2010 through 2012.

The Plan incorrectly applied the SSSG discount to the FEHBP line 1 rates and special benefit loadings. Per OPM's rating instructions, SSSG discounts are to be applied to the line 5 rates. As such, we applied an SSSG discount of [REDACTED] percent to the FEHBP line 5 rates.

Consistent with the regulations and contract, the FEHBP is due \$8,554 for lost investment income, calculated through June 30, 2015 on the defective pricing finding. In addition, we recommend that the contracting officer recover lost investment income starting July 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

# ABBREVIATIONS

<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>Blue Care Network of Michigan, Inc. – East Region</b>
<b>SSSG</b>	<b>Similarly Sized Subscriber Group</b>
<b>U.S.C.</b>	<b>United States Code</b>

# TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY</b> .....	i
<b>ABBREVIATIONS</b> .....	ii
<b>I. BACKGROUND</b> .....	1
<b>II. OBJECTIVES, SCOPE, AND METHODOLOGY</b> .....	3
<b>III. AUDIT FINDINGS AND RECOMMENDATIONS</b> .....	5
Premium Rate Review .....	5
1. Defective Pricing .....	5
2. Lost Investment Income .....	6
<b>IV. MAJOR CONTRIBUTORS TO THIS REPORT</b> .....	8
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	
Appendix (Blue Care Network of Michigan, Inc. – East Region’s May 13, 2015 response to the draft report)	
<b>REPORT FRAUD, WASTE, AND MISMANAGEMENT</b>	

# I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at Blue Care Network of Michigan, Inc. – East Region (Plan). The audit covered contract years 2009 through 2012, and was conducted at the Plan’s office in Southfield, Michigan.

The audit was conducted pursuant to FEHBP contract CS 2011; 5 United States Code (U.S.C.) Chapter 89; and 5 Code of Federal Regulations Chapter 1, Part 890. The audit was performed by the U.S. Office of Personnel Management’s (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

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 OPM’s Healthcare and Insurance Office. Health insurance coverage is provided through contracts with health insurance carriers that 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 premium rate that is equivalent to the best rate given 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 1984 and provides health benefits to FEHBP members in the East Michigan area. The Plan's prior OIG audit was a rate reconciliation audit covering contract year 2008. There were no findings or questioned costs identified.

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

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

The primary objectives of this performance audit were to determine if the FEHBP premium rates were developed using complete, accurate and current data, and were equivalent to the Plan's Similarly Sized Subscriber Groups (SSSG), as provided in Federal Employees Health Benefits Acquisition Regulation (FEHBAR) 1652.215-70(a). Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

### Scope

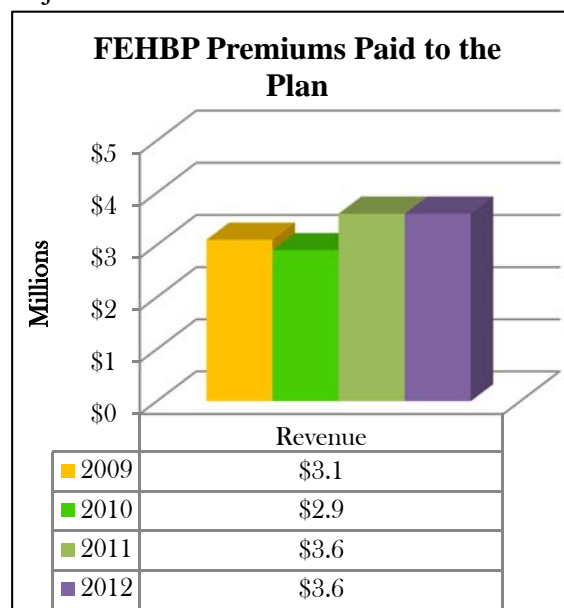
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This performance audit covered contract years 2009 through 2012. For these years, the FEHBP paid approximately \$13.2 million in premiums to the Plan.

OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the Rate Instructions to Community-Rated Carriers (rate instructions). These audits are also designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts.

We obtained an understanding of the Plan's internal control structure, but we did not use this information to determine the nature, timing, and extent of our audit procedures. However, the audit included such tests of the Plan's rating system and such other auditing procedures considered necessary under the circumstances. Our review of internal controls was limited to the procedures the Plan has in place to ensure that:

- The appropriate SSSGs were selected;
- the rates charged to the FEHBP were developed using complete, accurate and current data, and were equivalent to the best rate given to the SSSGs; and



- the loadings to the FEHBP rates were reasonable and equitable.

In conducting the audit, we relied to varying degrees on computer-generated billing, enrollment, and claims data provided by the Plan. We did not verify the reliability of the data generated by the various information systems involved. However, nothing came to our attention during our audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the available data was sufficient to achieve our audit objectives. Except as noted above, the audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was performed from October 20, 2014 through October 31, 2014 at the Plan's office in Southfield, Michigan. Additional audit work was completed at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania.

### **Methodology**

We examined the Plan's Federal rate submissions and related documents as a basis for validating its Certificates of Accurate Pricing. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the FEHBP rates were reasonable and equitable. Finally, we used the contract, the FEHBAR, and the rate instructions to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

To gain an understanding of the internal controls in the Plan's rating system, we reviewed the Plan's rating system policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.



# III. AUDIT FINDINGS AND RECOMMENDATIONS

## Premium Rate Review

### 1. Defective Pricing

**\$57,270**

The Certificate of Accurate Pricing the Plan signed for contract year 2009 was defective. In accordance with Federal regulations, the FEHBP is therefore due a rate reduction for this year. Application of the defective pricing remedy shows that the FEHBP is due a premium adjustment of \$57,270 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM's rules and regulations in contract years 2010 through 2012.

**The FEHBP is due a rate reduction of \$57,270 for defective pricing in contract year 2009.**

FEHBAR 1652.215-70 provides that carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the proposed subscription rates are complete, accurate and current. Furthermore, FEHBAR 1652.216-70 states that the subscription rates agreed to in the contract shall be equivalent to the subscription rates given to the community-rated carrier's SSSGs, as defined in FEHBAR 1602.170-13. SSSGs are the Plan's two employer groups closest in subscriber size to the FEHBP. If it is found that the FEHBP rates were increased because of defective pricing or defective cost or pricing data, then the rates shall be reduced in the amount by which the price was increased because of the defective data or information.

### 2009

We agree with the Plan's selection of [REDACTED] and the [REDACTED] as SSSGs for contract year 2009. The Plan applied an SSSG discount of [REDACTED] percent to the FEHBP line 1 rates and special benefit loadings. Our analysis confirmed that [REDACTED] received a [REDACTED] percent discount and the [REDACTED] received an [REDACTED] percent discount.

However, the Plan incorrectly applied the SSSG discount to the FEHBP line 1 rates and special benefit loadings. Per OPM's rate instructions, SSSG discounts are to be applied to the line 5 rates. As such, we applied the [REDACTED] percent discount to the FEHBP line 5 rates.

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP rates were overcharged \$57,270 (see Exhibit B).

**Plan’s Comments (see Appendix):**

The Plan claimed that although they did not apply the discount to the Line 5 rates, they do not consider this to be "defective pricing." The Plan provided supporting rating exhibits that were consistent with prior years, and the intention was to provide the FEHBP with the best market rate offered. Their two main concerns were:

- a. The 2009 rate submission and rate reconciliation templates provided by OPM in the instruction packages are not consistent. There is a line 5b - discount on the rate submission template, but there is not a corresponding discount line on the 2009 rate reconciliation template. The discount section (lines 5b (i) and (ii)) was not added to the rate reconciliation template until 2010. Because there was no designated discount line on the 2009 reconciliation template, there was no place for the Plan to show where the discount had been applied.
- b. The Plan does not calculate Extension of Coverage, Medicare, Children's or Enrollment Discrepancy loadings for any other group customers (lines 4a-4e in the rate submission and reconciliation templates). Because these types of loadings are not used by any other customers, the application of the discount factor to rates shown on Lines 1 through 2n is appropriate.

**OIG’s comments:**

We disagree with the Plan’s response, and maintain that the findings outlined in the draft report are accurate based on the OPM rate instructions.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$57,270 to the FEHBP for defective pricing in contract year 2009.

**2. Lost Investment Income**

**\$8,554**

In accordance with FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing finding in contract year 2009. We determined the FEHBP is due \$8,554 for lost investment income, calculated through June 30, 2015. In addition, the FEHBP is entitled to lost investment income for the period beginning July 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

**The FEHBP is due lost investment income on the defective pricing finding in the amount of \$8,554.**

FEHBAR 1652.215-70 provides that, if any rate established in connection with the FEHBP contract was increased because the carrier furnished cost or pricing data that was not complete, accurate, or current as certified in its Certificate of Accurate Pricing, the rate shall be reduced by the amount of the overcharge caused by the defective data. In addition, when the rates are reduced due to defective pricing, the regulation states that the government is entitled to a refund and simple interest on the amount of the overcharge from the date the overcharge was paid to the carrier until the overcharge is liquidated.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

**Plan's Comments (see Appendix):**

The Plan did not provide any comment on the lost investment income finding.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$8,554 to the FEHBP for lost investment income, calculated through June 30, 2015. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning July 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## COMMUNITY-RATED AUDITS GROUP

██████████, Auditor-in-Charge

██████████, Lead Auditor

██████████, Auditor

---

██████████, Senior Team Leader

██████████, Group Chief

# EXHIBIT A

## Blue Care Network of Michigan, Inc. - East Region Summary of Questioned Costs

### Defective Pricing Questioned Costs

Contract Year 2009	<u>\$57,270</u>
--------------------	-----------------

Total Defective Pricing Questioned Costs	\$57,270
------------------------------------------	----------

Lost Investment Income	<u>\$8,554</u>
------------------------	----------------

Total Questioned Costs	<u><b>\$65,824</b></u>
------------------------	------------------------

# EXHIBIT B

## Blue Care Network of Michigan, Inc. - East Region Defective Pricing Questioned Costs

### Contract Year 2009 - High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	\$ [REDACTED]	\$ [REDACTED]	
FEHBP Line 5 - Audited Rate	\$ [REDACTED]	\$ [REDACTED]	
Bi-weekly Overcharge	\$ [REDACTED]	\$ [REDACTED]	
To Annualize Overcharge:			
March 31, 2009 enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$26,805	\$30,465	\$57,270
<b>Total Defective Pricing Questioned Costs</b>			<b><u>\$57,270</u></b>

# EXHIBIT C

## Blue Care Network of Michigan, Inc. - East Region Lost Investment Income

Year	2009	2010	2011	2012	2013	2014	30-Jun-15	Total
<b>Audit Findings:</b>								
1. Defective Pricing	\$57,270	\$0	\$0	\$0	\$0	\$0	\$0	\$57,270
Totals (per year):	\$57,270	\$0	\$0	\$0	\$0	\$0	\$0	\$57,270
Cumulative Totals:	\$57,270	\$57,270	\$57,270	\$57,270	\$57,270	\$57,270	\$57,270	\$57,270
Avg. Interest Rate (per year):	5.250%	3.188%	2.563%	1.875%	1.563%	2.063%	2.125%	
Interest on Prior Years Findings:	\$0	\$1,825	\$1,468	\$1,074	\$895	\$1,181	\$608	\$7,051
Current Years Interest:	\$1,503	\$0	\$0	\$0	\$0	\$0	\$0	\$1,503
Total Cumulative Interest Calculated Through June 30, 2015:	\$1,503	\$1,825	\$1,468	\$1,074	\$895	\$1,181	\$608	\$8,554

# APPENDIX



May 13, 2015

[REDACTED]  
Chief, Community-Rated Audits Group  
U.S. Office of Personnel Management  
Office of the Inspector General  
800 Cranberry Woods Drive  
Suite 270  
Cranberry Township, PA16066

RE: Draft Audit Report 1C-K5-00-15-007

Dear [REDACTED]:

The Office of Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Blue Care Network of Michigan (BCN) for the East region – plan code K5. The audit covered contract years 2009 through 2012 and we received a Draft Audit Report dated March 18, 2015 outlining one finding related to 2009.

Typically, the carrier response to a Draft Audit Report is due no later than 30 days from the date of the report. BCN requested a 30-day extension from your office on April 8 and you agreed to a new due date of May 15, 2015.

## 2009

The audit report states that the Certificate of Accurate Pricing signed for contract year 2009 was defective. Regulations state that if it is found that the FEHBP was charged higher than the market price rate (i.e. best rate offered to a Similarly Sized Subscriber Group or SSSG), a condition of defective pricing exists, requiring a downward adjustment of FEHBP premiums to the equivalent market price rate.

BCN's 2009 initial rate submission for plan code K5 included an estimated SSSG discount factor, and the subsequent 2009 rate reconciliation included the final SSSG discount factor.

The auditor agreed with BCN's SSSG selection and the final discount factor. OPM's 2009 Rating Instructions stated that SSSG discounts should be applied to Line 5 rates; however, BCN applied the SSSG discount factor to rates shown on Lines 1 through 2(n). The rate on Line 1 reflects the cost of the base certificate, and rates on Lines 2(a) through 2(n) reflect the cost of each special benefit loading or rider.

Although BCN did not apply the discount to the Line 5 rates, we do not consider this to be "defective pricing". BCN provided supporting rating exhibits that were consistent with prior years and the intention was to provide FEHBP with the best market rate offered. Our two main concerns are outlined below.



- The 2009 rate submission and rate reconciliation templates provided by OPM in the instruction packages are not consistent. There is a line 5b - Discount on the rate submission template, but there is not a corresponding Discount line on the 2009 rate reconciliation template. The Discount section [Lines 5b (i) and (ii)] was not added to the rate reconciliation template until 2010. Because there was no designated Discount line on the 2009 reconciliation template, there was no place for BCN to show where the discount had been applied.
- BCN does not calculate Extension of Coverage, Medicare, Children's or Enrollment Discrepancy loadings for any other group customers (Lines 4a-4e in the rate submission and reconciliation templates). Because these types of loadings are not used by any other customers, the application of the discount factor to rates shown on Lines 1 through 2n is appropriate.

**DELETED BY OIG – NOT RELEVANT TO THE FINAL REPORT.**

**DELETED BY OIG – NOT RELEVANT TO THE FINAL REPORT.**

We would be happy to meet prior to the issuance of the Final Audit report to review any discrepancies in data and to answer any questions you may have with regard to the information we have provided with this response. Please feel free to contact my colleague [REDACTED] at [REDACTED] for any additional information.

Sincerely,

Susan A. Kluge  
Senior Vice President, Chief Financial Officer and Treasurer

SAK [REDACTED]

Attachments

Cc: [REDACTED] - Vice President, BCN Underwriting and Actuarial Services  
[REDACTED] - Account Manager  
[REDACTED] - Director, BCN Rating and Underwriting



## **Report Fraud, Waste, and Mismanagement**

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

**By Internet:** <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

**By Phone:** Toll Free Number: (877) 499-7295  
Washington Metro Area: (202) 606-2423

**By Mail:** Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, NW  
Room 6400  
Washington, DC 20415-1100