



U.S. OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS

# Final Audit Report

Subject:

**Audit of the Federal Employees Health Benefits  
Program Operations of FirstCare – Central Texas**

Report No. 1C-6U-00-08-064

Date: September 30, 2009

-- CAUTION --

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

**AUDIT REPORT**

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
FirstCare – Central Texas  
Contract Number 2321 - Plan Code 6U  
Austin, Texas**

Report No. 1C-6U-00-08-064

Date: September 30, 2009

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

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## EXECUTIVE SUMMARY

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**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
FirstCare – Central Texas  
Contract Number 2321 - Plan Code 6U  
Austin, Texas**

**Report No. 1C-6U-00-08-064**

**Date: September 30, 2009**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at FirstCare – Central Texas (Plan). The audit covered contract years 2004 through 2008 and was conducted at the Plan's office in Austin, Texas. Additional work was performed at our field office in Jacksonville, Florida. This report questions \$174,372 for defective pricing in 2004 and 2005, including \$33,755 for related lost investment income. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2006, 2007, and 2008.

We determined that the FEHBP rates were overstated by \$86,760 for contract year 2004 because the incurred claims used by the Plan were incorrect. In contract year 2005, the Plan incorrectly calculated a benefit adjustment load resulting in questioned costs of \$53,857. Also, the Plan could not provide adequate documentation to support the rates charged to the FEHBP and the SSSGs for all years audited.

Consistent with the contract, the FEHBP is due \$33,755 for lost investment income, calculated through July 31, 2009, on the defective pricing findings in 2004 and 2005. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning August 1, 2009, until the funds have been returned to the FEHBP.

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## I. INTRODUCTION AND BACKGROUND

### Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations of FirstCare – Central Texas (Plan) in Austin, Texas. The audit covered contract years 2004 through 2008. The audit was conducted pursuant to the provisions of Contract 2321; 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, as established by the Inspector General Act of 1978, as amended.

### Background

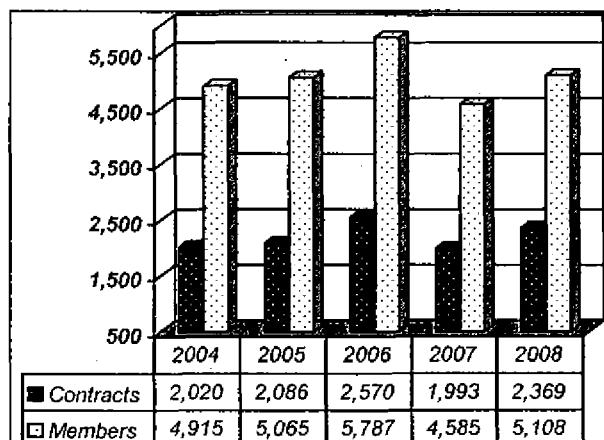
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Center for Retirement and Insurance 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 various 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 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 for March 31 of each contract year audited.

FEHBP Contracts/Members  
March 31



The Plan has participated in the FEHBP since 1988 and provides health benefits to FEHBP members throughout central Texas. The last audit of the Plan conducted by our office was a full scope audit of contract years 2000 through 2003. All issues related to that audit were resolved.

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

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

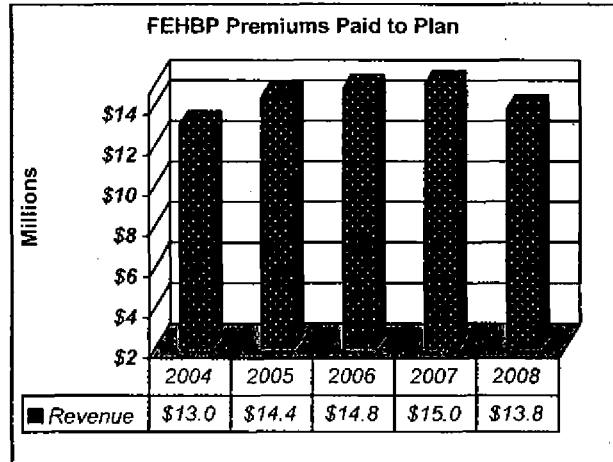
The primary objectives of the audit were to verify that the Plan offered market price rates to the FEHBP and to verify that the loadings to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and 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 2004 through 2008. During this period, the FEHBP paid approximately \$71.0 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 systems and such other auditing procedures as we 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 an SSSG); 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 determined that the data available was sufficient to achieve our audit objectives. Except as noted above, the audit was performed in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was conducted at the Plan's office in Austin, Texas, during September 2008. Additional audit work was completed at our offices in Washington, D. C. and Jacksonville, Florida.

### **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 SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations, and 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 systems.

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**

**\$140,617**

The Certificates of Accurate Pricing the Plan signed in contract years 2004 and 2005 were defective. In accordance with federal regulations, the FEHBP is therefore due a price reduction for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$140,617 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations in contract years 2006, 2007, and 2008.

Carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing which certifies that proposed subscription rates, subject to adjustments recognized by OPM, are market price rates. OPM regulations refer to a market price rate in conjunction with the rates offered to an SSSG. If it is found that the FEHBP was charged higher than the market price rate (i.e., the best rate offered to an SSSG), a condition of defective pricing exists, requiring a downward adjustment of the FEHBP premiums to the equivalent market price rate.

#### **2004**

In developing the FEHBP rates for contract year 2004, the Plan used \$7,586,276 for medical incurred claims. However, documentation provided by the Plan shows that the incurred medical claims should have been \$7,336,415. Therefore, we redeveloped the 2004 FEHBP rates using \$7,336,415 for medical incurred claims. As a result, the FEHBP was overcharged \$86,760 in contact year 2004 (see Exhibit B).

#### **Plan's Comments (See Appendix):**

This finding was a mistake identified as Extension of Coverage in the Supplemental Draft report; therefore, the Plan has not had a chance to address it.

#### **2005**

In reviewing the FEHBP rates, we found that the Plan erroneously calculated a benefit adjustment factor based on a change from a \$100 inpatient admission copay to a \$500 inpatient admission copay. The Plan's calculation included a [REDACTED] benefit adjustment factor on a separate line in the rate development. However, upon further review we found that the [REDACTED] benefit adjustment factor was also included within the medical benefit adjustment calculations, resulting in the FEHBP being charged twice for that factor. Therefore, we removed the individual benefit adjustment factor line item. This resulted in a total benefit adjustment factor of [REDACTED]. We re-developed the FEHBP's rates using the recalculated benefit factor, which resulted in an overcharge to the FEHBP of \$53,857 for 2005 (see Exhibit B).

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

The Plan agrees that the FEHBP is due \$53,857 for 2005.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$140,617 to the FEHBP for defective pricing in contract years 2004 and 2005.

**2. Lost Investment Income**

**\$33,755**

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 findings in contract years 2004 and 2005. We determined that the FEHBP is due \$33,755 for lost investment income, calculated through July 31, 2009. In addition, the FEHBP is entitled to lost investment income for the period beginning August 1, 2009, until all defective pricing finding amounts have been returned to the FEHBP.

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

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

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

The Plan states the value should be adjusted based on its response to the findings.

**OIG's Response to the Plan's Comments:**

Lost investment income should be calculated on the defective pricing amounts actually due the FEHBP. 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 \$33,755 to the FEHBP for lost investment income for the period January 1, 2005, through July 31, 2009 (see Exhibit C). In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning August 1, 2009 until all defective pricing amounts have been returned to the FEHBP.

### **3. Records Retention**

The Plan did not provide adequate documentation to support the rates charged to the FEHBP and the SSSGs for all years audited. The Federal Acquisitions Regulations 1652.204-70 requires the carrier to retain all records for six years after the end of the contract term to which the records relate.

Without appropriate supporting documentation, it is difficult to determine if the FEHBP rates were established in accordance with the Plan's contract, applicable regulations, and OPM community-rating guidelines. Under these circumstances, we may have to depend on other data, and at times, different rating methodologies to determine the appropriateness of the FEHBP rates. The outcome of our analysis based on the best information available may result in a less desirable outcome to the Plan. Therefore, it is in the best interest of a plan to retain the information needed to verify the FEHBP and the SSSGs rates.

#### **Recommendation 3**

We recommend that the contracting officer assess the maximum penalty allowed in the contract between OPM and the Plan for the Plan's breach of the records retention clause.

In addition, we recommend that the contracting officer inform the Plan that:

- OPM expects it to fully comply with the records retention provisions of the contract and all applicable regulations;
- it should maintain copies of all pertinent rating documents that show the factors and calculations the Plan uses in developing the actual rates for the FEHBP and the groups closest in size to the FEHBP for each unaudited year;
- it should maintain copies of the enrollment reports and other necessary supporting documents for the FEHBP and the groups closest in size to the FEHBP for each unaudited year; and
- the applicable community-rated performance factors described in FEHBAR 1609.7101-2 will be adversely affected if information requested during audits is not provided.

## IV. MAJOR CONTRIBUTORS TO THIS REPORT

### Community-Rated Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

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██████████ Chief

██████████ Senior Team Leader

**FirstCare - Central Texas  
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2004	\$86,760
Contract Year 2005	\$53,857

Total Defective Pricing Questioned Costs: \$140,617

Lost Investment Income: \$33,755

***Total Questioned Costs:*** \$174,372

**FirstCare - Central Texas  
Defective Pricing Questioned Costs**

**2004**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - 2004 Audited Rate			
Overcharge			
To Annualize Overcharge:			
x 3/31/04 enrollment	<u>26</u>	<u>26</u>	
x Pay Periods			
Subtotal			
<b>Total 2004 Defective Pricing Questioned Costs</b>			<b>\$86,760</b>

**2005**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - 2005 Audited Rate			
Overcharge			
To Annualize Overcharge:			
x 3/31/05 enrollment	<u>26</u>	<u>26</u>	
x Pay Periods			
Subtotal			
<b>Total 2005 Defective Pricing Questioned Costs</b>			<b>\$53,857</b>

**Total Defective Pricing Questioned Costs** **\$140,617**

**FirstCare - Central Texas  
Lost Investment Income**

<b>Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total</b>
<b>Audit Findings:</b>							
I. Defective Pricing	\$86,760	\$53,857	\$0	\$0	\$0	\$0	\$140,617
Totals (per year):	\$86,760	\$53,857	\$0	\$0	\$0	\$0	\$140,617
Cumulative Totals:	\$86,760	\$140,617	\$140,617	\$140,617	\$140,617	\$140,617	\$789,845
Avg. Interest Rate (per year):	4.2500%	4.3750%	5.4375%	5.5000%	4.9375%	5.6250%	
Interest on Prior Years Findings:	\$0	\$3,796	\$7,646	\$7,734	\$6,943	\$4,614	\$30,733
Current Years Interest:	\$1,844	\$1,178	\$0	\$0	\$0	\$0	\$3,022
<b>Total Cumulative Interest Calculated Through July 31, 2009:</b>	<b>\$1,844</b>	<b>\$4,974</b>	<b>\$7,646</b>	<b>\$7,734</b>	<b>\$6,943</b>	<b>\$4,614</b>	<b>\$33,755</b>

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6U-00-08-064

May 13, 2009

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

Dear ██████████

This is in response to your Supplemental Draft Audit letter dated April 24, 2009 for carrier 6U that was received on May 4, 2009. We have completed our evaluation of the Draft Audit and our response follows.

**Deleted by OIG – Not relevant to the Final Report**

**2. Error found in Auditors Excel Spreadsheet**

While looking through the spreadsheet, we noticed that a factor shown in Cell P25 of the Tab labeled "FEHPB" did not include all of Section B.4 (projected cost pmpm) nor Section C.1.d (benefit factor adjustment). As a result of correcting the large claim amount back to \$818,754 and including Column L of the above noted sections, Cell P25 changes from the audited amount of .973 to .994. The Benefit factor adjustment is applied to the overall Medical component which includes Capitation; therefore, the .992 factor is applied to both Column J and Column L as shown in Tab labeled "FEHPB\_Adj" in the Excel file, "6U Exhibit B".

**3. 2005 comparison of Plan's Reconciled Line 5 and Audited Line 5 Rates**

As a result of items listed in Sections 1 and 2 above, we believe that the amount of overcharge is not \$464,587 but \$53,857 as shown in Tab labeled "Exhibit A\_Adj" in the Excel file, "6U Exhibit B".

**Deleted by OIG – Not relevant to the Final Report**



**Deleted by OIG – Not relevant to the Final Report**

**6. Lost Investment Income**

As a result of the above findings, we believe this value needs to be adjusted accordingly.

Thank you for the opportunity to respond to the supplemental draft audit report. If you have any questions or concerns about our interpretations of the findings, please do not hesitate to contact me.

Sincerely,

A large black rectangular redaction box covering the signature of the sender.

Vice President of Actuarial Services  
FirstCare Health Plans

A small black rectangular redaction box covering contact information.

Attachments