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US OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS

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# Final Audit Report

**Subject:**

## **Audit of the Federal Employees Health Benefits Program Operations of Aetna Open Access – Plan Code RD**

**Report No. 1C-RD-00-08-056**

**Date: March 26, 2009**

**--CAUTION--**

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Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

**AUDIT REPORT**

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

Report No. 1C-RD-00-08-056

Date: March 26, 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  
Aetna Open Access  
Contract Number CS 2867 - Plan Code RD  
Blue Bell, Pennsylvania**

Report No. 1C-RD-00-08-056

Date: March 26, 2009

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Aetna Open Access – Plan Code RD (Plan). The audit covered contract years 2003 through 2008 and was conducted at our office in Cranberry Township, Pennsylvania. This report questions \$86,743 for inappropriate charges to the FEHBP in 2005 and 2008, including \$6,030 for lost investment income. We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and the Office of Personnel Management's rating instructions in contract years 2003, 2004, 2006, and 2007.

We determined that the FEHBP rates were overstated by \$25,886 for contract year 2005 because the Plan incorrectly charged the FEHBP an open access loading on the mental health benefits. In addition, the FEHBP rates were overstated by \$54,827 for contract year 2008 because the Plan did not completely apply a similarly sized subscriber group discount to the FEHBP's rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$6,030 for lost investment income, calculated through December 31, 2008, on the defective pricing findings in 2005 and 2008. The Plan agreed with the findings and remitted a check for \$86,743.

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## I. INTRODUCTION AND BACKGROUND

### Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Aetna Open Access – Plan Code RD (Plan) in Blue Bell, Pennsylvania. The audit covered contract years 2003 through 2008. The audit was conducted pursuant to the provisions of Contract CS 2867; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General, as established by the Inspector General Act of 1978, as amended.

### Background

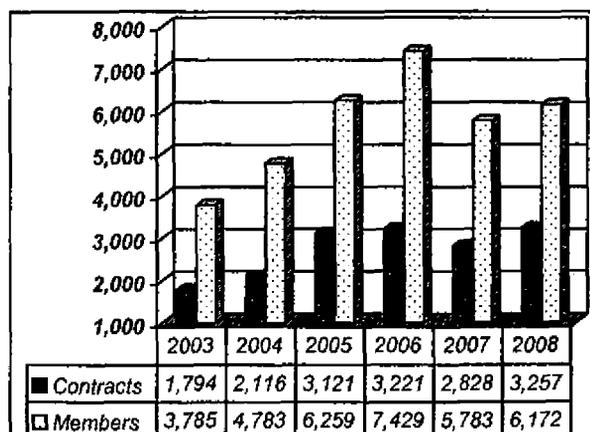
The FEHBP was established by the Federal Employees Health Benefits Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. The FEHBP is administered by OPM's Center for Retirement and Insurance 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 began participating in the FEHBP in 1983 and provides health benefits to FEHBP members throughout the greater Cincinnati, Ohio area. The last audit of the Plan conducted by our office was a rate reconciliation audit of contract year 2002. As a result of that audit, we found that the Plan's rating of the FEHBP was in accordance with the applicable laws, regulations and OPM rating instructions for the year audited.

The preliminary results of this audit were discussed with Plan officials at an exit conference and through 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 final report and are included, as appropriate, as the Appendix.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

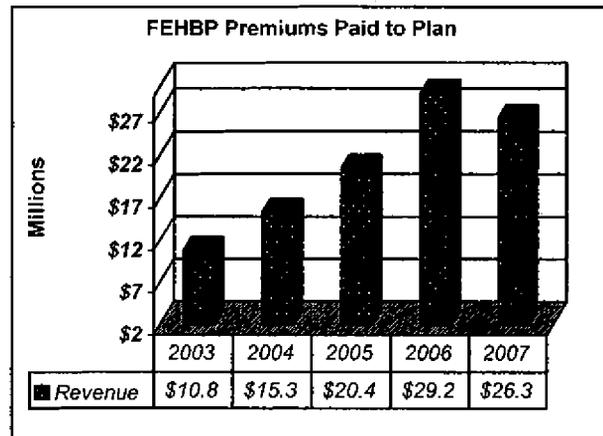
### Objectives

The primary objectives of the audit were to verify that the Plan offered market price rates to the FEHBP and to verify that the loadings to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

### Scope

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

This performance audit covered contract years 2003 through 2008<sup>1</sup>. For contract years 2003 through 2007, the FEHBP paid approximately \$102 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.

<sup>1</sup> The Subscription Income Report for 2008 was not available at the time this report was completed.

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 performed in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was conducted at our office in Cranberry Township, Pennsylvania.

### **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 (FEHBAR), and OPM's Rate Instructions to Community-Rated Carriers to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

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

### III. AUDIT FINDINGS AND RECOMMENDATIONS

#### Premium Rates

##### 1. Defective Pricing

\$80,713

The Certificates of Accurate Pricing the Plan signed for contract years 2005 and 2008 were defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for each year. We applied the defective pricing remedies for the years in question and determined that the FEHBP is entitled to premium adjustments totaling \$80,713 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the applicable laws, regulations, and OPM rating instructions in contract years 2003, 2004, 2006, and 2007.

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

In contract years 2003 through 2008, the Plan used an adjusted community rating (ACR) methodology to develop the FEHBP rates. In some contract years, the SSSG rates were developed using a blend of an ACR methodology and a community-rating-by-class methodology. This only applied to groups that had an experience credibility that was less than 100 percent. The ACR methodology is based on group specific claims experience, which is adjusted by factors such as trends, benefit changes, high-dollar claims, retention, and administrative fees to determine the required per-member-per-month (PMPM) revenue needed for the renewal period. The current billed rates and enrollment by tier are used to obtain the current PMPM. Once the current PMPM is calculated, the total is divided by the required PMPM to determine the percentage of rate increase or decrease. Each tier of the current billed rates is multiplied by the percentage increase or decrease to arrive at the groups' renewal rates.

#### 2005

We agree with the Plan's selection of [REDACTED] as the SSSGs for contract year 2005. Our analysis of the rates charged to the SSSGs shows that neither [REDACTED] received a discount.

In reviewing the FEHBP rates, we noted that the Plan charged the FEHBP an open access loading on its mental health benefits. The 2005 FEHBP benefit brochure states "Aetna offers Open Access to our members ... You can go directly to any network specialist for covered services without a referral from your primary care physician. **Note: This does not apply to mental health and/or substance abuse services.**" The Plan did not remove the open access

loading from the mental health or substance abuse sections of the benefit change factor calculation. Therefore, we changed the mental health and substance abuse open access factors from [REDACTED] to [REDACTED]. By removing the open access loading from the mental health and substance abuse benefits, the 2004 to 2005 benefit change percentage was reduced from the Plan-stated [REDACTED] percent to our audited [REDACTED] percent.

We re-developed the FEHBP's rates by removing the open access loading from the mental health and substance abuse benefits. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$25,886 in 2005 (see Exhibit B).

## **2008**

We agree with the Plan's selection of [REDACTED] as the SSSGs for contract year 2008. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount, of which [REDACTED] percent was applied to the FEHBP's rates by the Plan in its rate reconciliation. [REDACTED] did not receive a discount.

The Plan originally calculated a [REDACTED] percent discount given to [REDACTED] and applied it to the FEHBP's rates. However, we determined that [REDACTED] was only charged for a 20 visit limitation for physical and occupational therapies, while the group actually received a 40 visit limitation. Therefore, we changed the 20 visit limitation factor of [REDACTED] to the 40 visit limitation factor of [REDACTED] in the benefit change workbook. This change in factors caused the actual discount to increase from [REDACTED] percent to [REDACTED] percent.

We re-developed the FEHBP's rates by applying the [REDACTED] percent discount that [REDACTED] received to the FEHBP's rates. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$54,827 in 2008 (see Exhibit B).

## **Recommendation 1**

After receiving the draft report, the Plan returned \$80,713 to the FEHBP for defective pricing in contract years 2005 and 2008. Since we verified that the Plan returned \$80,713 to the FEHBP, no further action is required.

## **2. Lost Investment Income**

**\$6,030**

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 findings in contract years 2005 and 2008. We determined that the FEHBP is due \$6,030 for lost investment income, calculated through December 31, 2008 (see Exhibit C).

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.

### **Recommendation 2**

After receiving the draft report, the Plan returned \$6,030 to the FEHBP for lost investment income on the defective pricing findings in contract years 2005 and 2008. Since we verified that the Plan returned \$6,030 to the FEHBP, no further action is required.

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

The Plan agrees with the defective pricing findings and the calculated lost investment income and submitted payment in the full amount of \$86,743 (\$80,713 + \$6,030).

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### **Community-Rated Audits Group**

██████████ Auditor-in-Charge

██████████ Auditor

██████████ Auditor

██████████ Auditor

██████████ Auditor

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██████████ Chief

██████████ Senior Team Leader

**Aetna Open Access - Plan Code RD  
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2005	\$25,886
Contract Year 2008	<u>\$54,827</u>

Total Defective Pricing Questioned Costs	\$80,713
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Lost Investment Income	<u>\$6,030</u>
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<b><i>Total Questioned Costs</i></b>	<b><u>\$86,743</u></b>
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**Aetna Open Access - Plan Code RD  
Defective Pricing Questioned Costs**

**2005**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/05 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Total 2005 Defective Pricing Questioned Costs			<b>\$25,886</b>

**2008**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/08 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal			
Total 2008 Defective Pricing Questioned Costs			<b>\$54,827</b>
<b><i>Total Defective Pricing Questioned Costs</i></b>			<b><u>\$80,713</u></b>

**Aetna Open Access - Plan Code RD  
Lost Investment Income**

Year	2003	2004	2005	2006	2007	2008	Total
<b>Audit Findings:</b>							
I. Defective Pricing	\$0	\$0	\$25,886	\$0	\$0	\$54,827	\$80,713
Totals (per year):	\$0	\$0	\$25,886	\$0	\$0	\$54,827	\$25,886
Cumulative Totals:	\$0	\$0	\$25,886	\$25,886	\$25,886	\$80,713	\$25,886
Avg. Interest Rate (per year):	3.6875%	4.250%	4.375%	5.4375%	5.5000%	4.9375%	
Interest on Prior Years Findings:	\$0	\$0	\$0	\$1,408	\$1,424	\$1,278	\$4,110
Current Years Interest:	\$0	\$0	\$566	\$0	\$0	\$1,354	\$1,920
Total Cumulative Interest Calculated Through December 31, 2008:	\$0	\$0	\$566	\$1,408	\$1,424	\$2,632	\$6,030



**Appendix**

930 Harvest Drive  
Mail Stop: U32N  
Blue Bell, PA 19422

2009 MAR 16 AM 7:39

  
FEHBP Underwriting Manager  
National Accounts  
215-775-7004

March 6, 2009

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

RE: Aetna's response to Draft Audit Report IC-RD-00-08-056

Dear 

Aetna agrees with the findings in the Draft Audit Report for Aetna Open Access Cincinnati – Plan Code RD (IC-RD-00-08-056) under the Federal Employees Health Benefits Program. Enclosed, please find a check in the amount of \$86,743.

Please feel free to contact me with any questions at (215) 775-7004.

Sincerely,

  
FEHBP Underwriting