



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 AultCare Health Plan

Report No. 1C-3A-00-10-027

Date: October 28, 2010

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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
AultCare Health Plan
Contract Number CS 2723 - Plan Code 3A
Canton, Ohio**

Report No. 1C-3A-00-10-027

Date: October 28, 2010

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

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



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
AultCare Health Plan
Contract Number CS 2723 - Plan Code 3A
Canton, Ohio**

Report No. 1C-3A-00-10-027

Date: October 28, 2010

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at the AultCare Health Plan (Plan). The audit covered contract years 2006 through 2009 and was conducted at the Plan's office in Canton, Ohio.

This report questions \$4,249,016 for defective pricing in contract years 2006 through 2008, including \$618,675 due the FEHBP for lost investment income, calculated through September 30, 2010. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2009.

For contract years 2006 through 2008, we determined that the FEHBP's rates were overstated by \$3,630,341 due to defective pricing. More specifically, the Plan did not select the correct similarly sized subscriber groups (SSSG) and did not apply the largest discount given to an SSSG to the FEHBP rates.

Consistent with the FEHBP regulations and the contract, the FEHBP is due \$618,675 for lost investment income, calculated through September 30, 2010, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning October 1, 2010, until all defective pricing amounts 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 at AultCare Health Plan (Plan) in Canton, Ohio. The audit covered contract years 2006 through 2009. The audit was conducted pursuant to the provisions of Contract CS 2723; 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

Background

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

Community-rated carriers participating in the FEHBP are subject to various federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., many community-rated carriers are federally qualified). In addition, participation in the FEHBP subjects the carriers to the Federal Employees Health Benefits Act and implementing regulations promulgated by OPM.

The FEHBP should pay a market price rate, which is defined as the best rate offered to either of the two groups closest in size to the FEHBP. In contracting with community-rated carriers, OPM relies on carrier compliance with appropriate laws and regulations and, consequently, does not negotiate base rates. OPM negotiations relate primarily to the level of coverage and other unique features of the FEHBP.

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



The Plan has participated in the FEHBP since 1996 and provides health benefits to FEHBP members in Stark, Carroll, Holmes, Tuscarawas, and Wayne counties and the Canton Metropolitan area in Ohio. The last audit conducted by our office was a full scope audit and covered contract years 2000 through 2003 and 2005. All matters related to that audit have been resolved.

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.

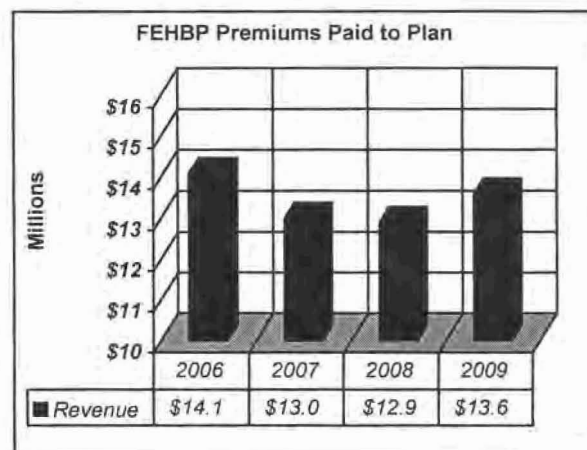
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2006 through 2009. For these years, the FEHBP paid approximately \$53.6 million in premiums to the Plan. The premiums paid for each contract year audited are shown on the chart above.

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

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

- The appropriate similarly sized subscriber groups (SSSG) were selected;
- the rates charged to the FEHBP were the market price rates (i.e., equivalent to the best rate offered to 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 at the Plan's office in Canton, Ohio, during January and February 2010. Additional audit work was completed at our field offices 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 the SSSGs, to determine if the market price was actually charged to the FEHBP. Finally, we used the contract, the Federal Employees Health Benefits Acquisition Regulations (FEHBAR), and OPM's Rate Instructions to Community-Rated Carriers to determine the propriety of the FEHBP premiums and the reasonableness and acceptability of the Plan's rating system.

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

III. AUDIT FINDINGS AND RECOMMENDATIONS

Premium Rates

1. Defective Pricing

\$3,630,341

The Certificates of Accurate Pricing the Plan signed for contract years 2006 through 2008 were defective. In accordance with federal regulations, the FEHBP is therefore due a price adjustment for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$3,630,341 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for 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, 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 a 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.

2006

The Plan selected the [REDACTED] as SSSGs for contract year 2006. We agree with the selection of the [REDACTED] but disagree with the selection of [REDACTED] [REDACTED] should have been chosen as an SSSG, since it was closer in enrollment size to the FEHBP and because it met SSSG requirements.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount. The Plan did not apply either discount to the FEHBP.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates offered to an SSSG, the FEHBP rates were recalculated by applying all relevant adjustments and applying the [REDACTED] percent discount given to [REDACTED]. A comparison of the Plan's reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged \$1,222,168 (see Exhibit B) in 2006.

Plan's Comments (See Appendix):

The Plan is not in agreement with the SSSG selection and believes that [REDACTED] should have been selected instead of [REDACTED]. The Plan chose [REDACTED] because it is the closest in size, next larger group to the FEHBP and has the most group similarities and demographics to the FEHBP. Based on this selection, the Plan believes that the largest discount of [REDACTED] percent

from [REDACTED] should be applied to the FEHBP rates, resulting in monies owed the FEHBP in the amount of \$431,130.

OIG's Response to the Plan's Comments:

We disagree with the Plan's assertion that [REDACTED] should be an SSSG in 2006 since it is not the group closest in size to the FEHBP at the time of reconciliation. According to the 2006 rate reconciliation instructions,

“At the time of your 2006 proposal, our regulation, 48 CFR 1602.170-13, defined SSSGs as follows:

(a) Similarly Sized Subscriber Groups (SSSGs) are a comprehensive medical plan's two employer groups that:

- (1) As of the date specified by OPM in the rate instructions, have a **subscriber enrollment closest** to the FEHBP subscriber enrollment;....”

The above instruction criteria does not state that the group must be “next larger” or “most similar” to the FEHBP, only that the group have the closest subscriber enrollment to the FEHBP. Based on these instructions, the two groups closest in size to the FEHBP are the [REDACTED]

[REDACTED] discount of [REDACTED] percent was the largest SSSG discount in 2006 and was applied to the FEHBP's rates at line 5. A comparison of the Plan's reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged \$1,222,168 (see Exhibit B) in 2006.

2007

The Plan selected [REDACTED] as SSSGs for contract year 2007. We agree with the selection of [REDACTED] but disagree with the selection of [REDACTED] [REDACTED] should have been chosen as an SSSG since it was closer in enrollment size to the FEHBP and because it met SSSG requirements.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] did not receive a discount. The Plan did not apply a discount to the FEHBP.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates offered to an SSSG, the FEHBP rates were recalculated by applying all relevant adjustments and applying the [REDACTED] percent discount given to [REDACTED]. A comparison of the Plan's reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged \$2,319,521 (see Exhibit B) in 2007.

Plan's Comments (See Appendix):

The Plan is not in agreement with the SSSG selection and believes that [REDACTED] should have been selected instead of [REDACTED]. The Plan chose [REDACTED] because it is the closest in size, next larger group to the FEHBP, and has the most group similarities and demographics to the FEHBP. Based on this selection, the Plan believes that the largest discount of [REDACTED] percent given to [REDACTED] should be applied to the FEHBP rates.

In addition, the Plan does not agree with using the 2006 audited premium increase to adjust the 2007 premium experience. Instead, the Plan believes that the 2006 percentage increase it calculated and billed should be applied to the 2007 premium experience to adjust the groups' premiums to the 2007 level.

Finally, the Plan believes that the [REDACTED] loading should be added into the benefit loading portion of the final rate determination.

Based on the adjustments discussed above, the Plan states that the FEHBP is due \$181,646 for 2007.

OIG's Response to the Plan's Comments:

We disagree with the Plan's assertion that [REDACTED] should be an SSSG in 2007 since it is not the group closest in size to the FEHBP at the time of reconciliation. According to the 2007 rate reconciliation instructions,

“At the time of your 2007 proposal, our regulation, 48 CFR 1602.170-13, defined SSSGs as follows:

(a) Similarly Sized Subscriber Groups (SSSGs) are a comprehensive medical plan's two employer groups that:

(1) As of the date specified by OPM in the rate instructions, have a **subscriber enrollment closest** to the FEHBP subscriber enrollment;....”

The above instruction criteria does not state that the group must be “next larger” or “most similar” to the FEHBP, only that the group have the closest subscriber enrollment to the FEHBP. Based on these instructions, the two groups closest in size to the FEHBP are [REDACTED]

In addition, for all groups under review in the audit scope, the audited renewal increases were used to adjust the following year's experience premiums, based on the Plan's methodology. The Plan's methodology determines a percentage increase for the current year and that renewal increase is also applied in the following year to adjust the monthly experience premiums, which brings them to a current level.

We used this methodology consistently and it accurately captures the costs associated with the rates in each year. While the larger renewal increase in 2006 essentially produces greater questioned costs in 2007, the questioned costs in 2006 are **lower** because we calculated a higher renewal increase. This effect would work in reverse as well. If we would calculate a lesser renewal increase than the Plan in the first year, the first year's questioned costs would be greater and the following year's questioned costs would be lower because the experience premiums are adjusted accordingly.

Finally, when using an adjusted community rating methodology, the extension of coverage loading is not applicable. According to the 2007 rating instructions,

'(4) If claims include special benefits claims, you should take no special benefits loadings (either in the proposal or reconciliation). Note that claims should reflect extension of coverage, which means that you should not take the extension of coverage loading.'

The claims used in the rate development are group specific and represent the benefits purchased by that specific group and are utilized in the Plan's adjusted community rating methodology. For these reasons, the extension of coverage loading should not be applied in the questioned cost calculation for any of the audit scope years.

Overall, [REDACTED] cannot be an SSSG in 2007 since it does not have the closest subscriber enrollment to the FEHBP as of March 31, 2007. Additionally, the audited premium adjustment will continue to be used consistently for all groups to adjust the experience premiums. Finally, the extension of coverage loading will not be included in any of the final rate determinations.

[REDACTED] discount of [REDACTED] percent was the largest SSSG discount in 2007 and was applied to the FEHBP's rates at line 5. A comparison of the Plan's reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged \$2,319,521 (see Exhibit B) in 2007.

2008

The Plan selected [REDACTED] as SSSGs for contract year 2008. We disagree with these selections. [REDACTED] should have been chosen as SSSGs since they were closest in enrollment size to the FEHBP and because they met SSSG requirements.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount. The FEHBP received a [REDACTED] percent discount.

Since OPM requires the FEHBP rates to be at least equivalent to the best rates offered to an SSSG, the FEHBP rates were recalculated by applying all relevant adjustments and applying the [REDACTED] percent discount given to [REDACTED]. A comparison of the Plan's

reconciled line 5 rates to our audited line 5 rates shows that the FEHBP was overcharged \$88,652 (see Exhibit B) in 2008.

Plan's Comments (See Appendix):

The Plan is not in agreement with the SSSG selection and believes that [REDACTED] should have been selected. The Plan chose [REDACTED] because it is the closest in size, next larger group to the FEHBP, and has the most group similarities and demographics to the FEHBP. The selection of [REDACTED] as an SSSG does not change the outcome of the rating in 2008, and the Plan agrees that the [REDACTED] percent discount from [REDACTED] be applied to the FEHBP rates. Overall, the Plan agrees that they owe the FEHBP \$88,652.

OIG's Response to the Plan's Comments:

We disagree with the Plan's assertion that [REDACTED] should be an SSSG in 2008 since it is not the group closest in size to the FEHBP at the time of reconciliation. According to the 2008 rate reconciliation instructions,

“The SSSG concept was developed to ensure OPM receives equitable and reasonable market-based rates. OPM shall determine the Federal group rates by selecting the lower of each carrier's rates derived by rating methods consistent with those used for the SSSG rates. For the 2008 rates, OPM will focus on the rating methods used for the two SSSGs to determine if the Carrier appropriately derived the Federal group rates.

Definition

(a) Similarly Sized Subscriber Groups (SSSGs) are a comprehensive medical plan's employer groups that:

- (1) As of the date specified by OPM in the rate instructions, have a **subscriber enrollment closest** to the FEHBP subscriber enrollment;....”

The above instruction criteria does not state that the group must be “next larger” or “most similar” to the FEHBP, only that the group have the closest subscriber enrollment to the FEHBP. Based on these instructions, the two groups closest in size to the FEHBP are [REDACTED]
[REDACTED]

The OIG and the Plan are in agreement that the FEHBP is owed \$88,652 for 2008 (Exhibit B).

Recommendation 1

We recommend that the contracting officer require the Plan to return \$3,630,341 to the FEHBP for defective pricing in contract years 2006 through 2008.

2. Lost Investment Income

\$618,675

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 due the FEHBP in contract years 2006 through 2008. We determined that the FEHBP is due \$618,675 for lost investment income, calculated through September 30, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning October 1, 2010, until all defective pricing finding amounts have been returned to the FEHBP.

FEHBP 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 is requesting that the lost investment income recoveries be forgiven and that the OIG waive the lost investment income payment.

OIG's Response to the Plan's Comments:

It is not within our authority to waive the lost investment income payment. The provisions contained within the FEHBP regulations and the contract clearly allow for lost investment income.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$618,675 to the FEHBP for lost investment income for the period January 1, 2006 through September 30, 2010. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning October 1, 2010, 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

██████████ Chief

██████████ Senior Team Leader

**AultCare Health Plan
Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2006	\$1,222,168
Contract Year 2007	\$2,319,521
Contract Year 2008	<u>\$88,652</u>

Total Defective Pricing Questioned Costs: \$3,630,341

Lost Investment Income: \$618,675

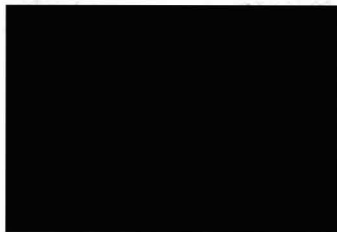
Total Questioned Costs: **\$4,249,016**

**AultCare Health Plan
Defective Pricing Questioned Costs**

2006 Contract Year - High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/06 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$165,658	\$1,056,510	
 Total 2006 Defective Pricing Questioned Costs			\$1,222,168

2007 Contract Year - High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
3/31/07 enrollment			
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$458,762	\$1,860,759	
 Total 2007 Defective Pricing Questioned Costs			\$2,319,521

2008 Contract Year - High Option

	<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	\$19,347	\$69,305	
 Total 2008 Defective Pricing Questioned Costs			\$88,652

Total Defective Pricing Questioned Costs	<u><u>\$3,630,341</u></u>
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**AultCare Health Plan
Lost Investment Income**

Year	2006	2007	2008	2009	2010	Total
Audit Findings:						
I. Defective Pricing	\$1,222,168	\$2,319,521	\$88,652	\$0	\$0	\$3,630,341
<hr/>						
Totals (per year):	\$1,222,168	\$2,319,521	\$88,652	\$0	\$0	\$3,630,341
Cumulative Totals:	\$1,222,168	\$3,541,689	\$3,630,341	\$3,630,341	\$3,630,341	\$3,630,341
Avg. Interest Rate (per year):	5.4375%	5.500%	4.9375%	5.2500%	3.1875%	
Interest on Prior Years Findings:	\$0	\$67,219	\$174,871	\$190,593	\$86,788	\$519,471
Current Years Interest:	\$33,228	\$63,787	\$2,189	\$0	\$0	\$99,204
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Total Cumulative Interest Calculated Through September 30, 2010:	\$33,228	\$131,006	\$177,060	\$190,593	\$86,788	\$618,675

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Friday, August 27, 2010

[REDACTED]
Chief, Community-Rated Audits Group
United States Office of Personnel Management
Office of the Inspector General
1900 E Street, NW
Room 6400
Washington, D.C. 20415-1100

Re: **AultCare Health Plan**
Contract Number CS 2723 Plan 3A
OIG Audit Report Number 1C-3A-00-10-027, dated June 2, 2010

Dear [REDACTED]

We are commenting to question the findings of the Office of Inspector General (OIG), following the audit of the AultCare Health Plan's administration of the Federal Employees Health Benefits Program (FEHBP). Our response is in regards to the contract years 2006 through 2008.

In review of the 2006 contract year, we are not in agreement with the selection of the Similar Sized Subscriber Group (SSSG). The OIG has selected [REDACTED]. From their analysis they determined that [REDACTED] received an [REDACTED] discount and [REDACTED] received a [REDACTED] discount. During this contract year FEHBP received a [REDACTED] discount when comparing their rating to the Adjusted Community Rating (ACR) method. We agree with the analysis of the calculations performed by the OIG auditors for these two groups. However, we are not in agreement with the selection of the SSSG. Our determination would select [REDACTED]. [REDACTED] would have received a [REDACTED] discount [REDACTED]. Therefore, [REDACTED] would have received the greatest discount of [REDACTED]. Applying this discount to the FEHBP would then result in an overcharge of \$431,130. Please see 2006 Audited FEHBP Model Response AultCare Exhibit; we have updated the auditor's model to reflect the [REDACTED] discount.

In review of the 2007 contract year, we are not in agreement with the selection of the SSSG and the development of the FEHBP adjusted community rating development. The OIG has selected [REDACTED] as SSSG's. From their analysis they determined that [REDACTED] received a [REDACTED] discount and [REDACTED] received a fair market rate. During this contract year FEHBP received no discounts. We agree with the analysis of the calculations performed by the OIG auditors for these two groups. However, we are not in agreement with the selection of the SSSG. Our determination again for this year would select [REDACTED]. [REDACTED] would have received a [REDACTED] discount [REDACTED]. Therefore, [REDACTED] would have received the greatest discount of [REDACTED].

- P.O. Box 6910 / Canton, OH 44706
- PHONE: 330-363-6360 / TOLL FREE: 1-800-344-8858
- TTY LINE: 330-363-2393 / 1-866-633-4752 for the hearing impaired
- WEBSITE: www.aultcare.com



Friday, August 27, 2010

Re: #1C-3A-00-10-027

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Through the development of the FEHBP rate using the ACR method, we disagree with the increase in premiums from the 2005 to 2006 contract year. FEHBP received a [REDACTED] increase in premiums that AultCare collected. The auditor calculated the renewal increase in the ACR adjusted premiums at a [REDACTED] increase. Since we did not collect this additional revenue, the adjusted premiums should be reflective of [REDACTED]. Using the audited file provided from the auditors, we have updated the worksheets to illustrate the changes. Please see the 2007 Audited FEHBP Model Response AultCare Exhibit. In the claims tab the adjusted premiums have been changed to reflect this increase in premiums as of January 2006. By making this adjustment to the calculation the renewal calls for a [REDACTED] increase instead of the [REDACTED] calculated by the auditors. The new calculated rates carried over to the exhibit A tab to represent the premiums that should have been provided. Further there was no extension of benefits loading applied in the calculation using the [REDACTED] factor. Then the SSSG discount from [REDACTED] of [REDACTED] would be applied creating an overpayment of \$181,646 owed to FEHBP.

In review of the 2008 contract year, we are not in agreement with the selection of the SSSG. The OIG has selected [REDACTED]. From their analysis they determined that [REDACTED] received a [REDACTED] discount and [REDACTED] received a [REDACTED] discount. During this contract year FEHBP received a [REDACTED] discount when comparing their rating to the ACR method. We agree with the analysis of the calculations performed by the OIG auditors for these two groups. However, we are not in agreement with the selection of the SSSG. Our determination would select [REDACTED] again for this year as a SSSG. [REDACTED] would have received a [REDACTED] discount for this contract year [REDACTED]. Since the [REDACTED] discount would be less than the [REDACTED] discount, we would agree then with the auditors calculation using the [REDACTED] discount applied to FEHBP. We would agree with the OIG on the 2008 questioned findings and the amount owed to FEHBP.

From our analysis in each of the years, 2006-2008, we are in disagreement with the selection of the Similar Sized Subscriber Group (SSSG). The reconciliation guidelines definition of the SSSG is the medial plan's employer groups that "(1) As of the date specified by OPM in the rate instructions, have a subscriber enrollment closest to the FEHB subscriber enrollment." From the ten groups submitted (Total enrollment 2006-2008 Exhibit) in the rate proposal the two group's closest in size to the Federal group at the time of reconciliation will become the SSSG's for the plan. The enrollment to determine the groups should be based on the most recent enrollment as of the March 31st of the current year. During our selection process and utilizing this definition, we selected [REDACTED] as a SSSG as it was the closest in size, next larger group to the FEHBP. In the total enrollment exhibit, it is illustrated that [REDACTED] is represented by being the closest in demographics to the FEHBP. We also feel that this group should be selected as an SSSG because of the similarities to FEHBP. On an enrollee or per life basis these groups are reflective of one another. Both groups have premiums within the given years from [REDACTED] million. So on an overall basis [REDACTED] would provide the best analysis to the FEHBP that they were receiving the most equitable and reasonable rate within the market.

AultCare was audited in November 2005 by the OIG for years 2000 through 2003 and year 2005. At that time we had also submitted [REDACTED] as a SSSG and the auditor in charge during that audit excluded this group. Later in the post audit reviews we received an e-mail notice from the auditor in charge that

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PPD Product



Friday, August 27, 2010
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provided us with an explanation and notation that [REDACTED] had been erroneously excluded from each of the contract years. We were notified that [REDACTED] would have been an SSSG for all of those years under review. However, at that time in August of 2006 the auditors informed us that they would not be requesting any additional information and would continue with the SSSG selection made during the audit. It was from this communication that we were led to understand that going forward from that date that [REDACTED] would no longer be excluded from an SSSG selection if they are close-enough in size to the FEHBP. Therefore, we strongly feel that based on the instructions in the reconciliation and rate guidelines along with the communication we received from the OIG that AultCare selected the SSSG's that meet the requirements.

In conclusion, we would like to ask the Office of the Inspector General to review the selection of the SSSG's and to utilize the [REDACTED] for the contract years 2006 through 2008. For the 2007 contract we would like to have the ACR rating method for the FEHBP reviewed based on our earlier comments. Lastly, we would like to request that the OIG give consideration to AultCare in regards to the lost investment income on the defective pricing findings. We are asking that the lost investment recoveries be forgiven and that AultCare can be waived of this payment.

We have included several exhibits as mentioned throughout our comments. If you have any questions in regards to those exhibits or would like to discuss further any matter related to the review, we would make ourselves available for a teleconference or an established meeting. Please do not hesitate to contact me at [REDACTED] or via e-mail at [REDACTED] for any questions. Thank you for your time and considerations in this matter.

Sincerely,

[REDACTED]

Underwriting Manager

cc: [REDACTED] Senior Vice President AultCare
[REDACTED] Chief Health Insurance Group III
[REDACTED] AultCare Compliance

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