



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 PacifiCare of Colorado

Report No. 1C-D6-00-09-005

Date: November 12, 2009

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

EXECUTIVE SUMMARY

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
PacifiCare of Colorado
Contract Number 1761 - Plan Code D6
Cypress, California**

Report No. 1C-D6-00-09-005

Date: November 12, 2009

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at PacifiCare of Colorado (Plan). The audit covered contract years 2005 through 2008 and was conducted at the Plan's office in Cypress, California. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in the years audited. This report details a procedural finding related to a non-covered eye exercise benefit which was incorrectly paid by the Plan.



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Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
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AUDIT REPORT

**Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
PacifiCare of Colorado
Contract Number 1761 - Plan Code D6
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Report No. 1C-D6-00-09-005

Date: November 12, 2009

A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

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

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I. INTRODUCTION AND BACKGROUND

Introduction

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at PacifiCare of Colorado (Plan). The audit covered contract years 2005 through 2008 and was conducted at the Plan's office in Cypress, California. The audit was conducted pursuant to the provisions of Contract CS 1761; 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.

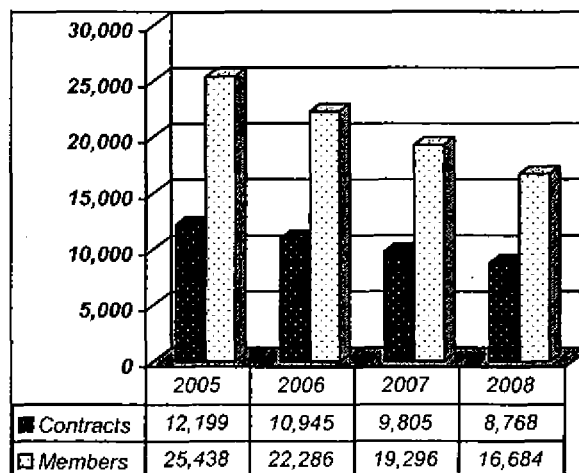
Background

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 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 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.

FEHBP Contracts/Members
March 31



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 1978 and provides health benefits to FEHBP members throughout the Metropolitan Denver, Boulder, and Colorado Springs areas. The last full-scope audit covered contract years 2000, 2001, 2003 and 2004. All questioned costs associated with that audit have been resolved.

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

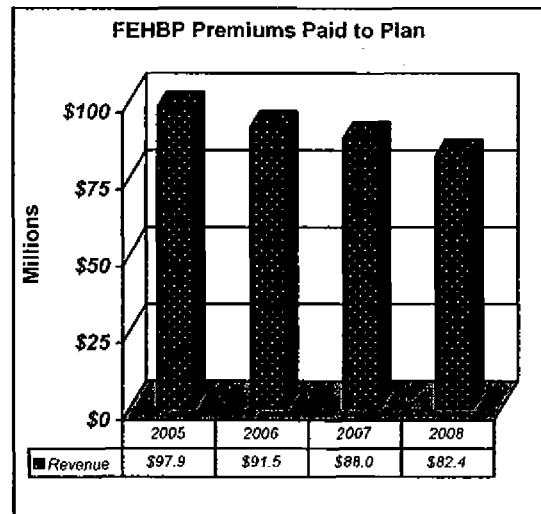
Objectives

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 2005 through 2008. For these years, the FEHBP paid approximately \$359.8 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 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 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 Cypress, California, during January 2009. Additional audit work was completed 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 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, 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 RECOMMENDATION

Premium Rate Review

Our audit showed that the Plan's rating of the FEHBP was in accordance with the applicable laws, regulations, and OPM's rating instructions to carriers for contract years 2005 through 2008. Consequently, the audit did not identify any questioned costs and no corrective action is necessary.

Claims Review

Per FEHBP Program Carrier Letters 2006-14 and 2007-09, the Office of Personnel Management requires all carriers to keep on file all data necessary to justify its Adjusted Community Rating (ACR) rate and save back-up copies of their claims databases for audit purposes. We reviewed FEHBP claims data for contract years 2007 and 2008. We ran queries on the claims data that relate to hospital, physician, out-of-area, prescription drugs and injectible drugs, large claims, coordination of benefits, bundling of claims, and non-covered benefits according to the FEHBP benefit brochures. We found that in 2008, the Plan paid for non-covered benefits.

1. Payment for Non-Covered Services

Our review of the 2008 FEHBP claims data shows that the Plan paid for claims that related to eye exercises, which is a non-covered benefit according to the FEHBP benefit brochure. We queried claims data during the experience period of April 1, 2006 through March 31, 2007 and found that there were eight instances of the Plan inappropriately paying for this benefit. The total paid amount was \$1,000. We notified the Plan of our results and requested an explanation for payment of these claims. The Plan agreed that the eye exercise claims were paid erroneously. The Plan also noted that their claims system was set up incorrectly. The Plan asserts that the system was corrected on June 9, 2009 and assures that any claims of this category will not be covered going forward. Due to this benefit being of rare usage, the Plan could not provide any eye exercise claims that have been submitted and rejected or any other documentation to show the system has been corrected. We agree with the Plan that these claims were paid incorrectly. Additionally, the amount in question does not have a significant impact on the premium rates for 2008.

Plan's Comments (See Appendix)

The Plan agrees with our finding.

Recommendation 1

We recommend that the contracting officer require the Plan to monitor its claims system and track eye exercises to ensure that these claims are being reviewed and rejected as a non-covered benefit.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

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October 2, 2009

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RE: Comments to the Draft Audit Report on PacifiCare of Colorado, Plan Code D6, Report No. 1C-D6-00-09-005

Dear [REDACTED]

We represent PacifiCare of Colorado, a UnitedHealthcare Company ("UnitedHealthcare") in connection with the above referenced matter. UnitedHealthcare Company is responding to this audit on behalf of PacifiCare of Colorado ("PacifiCare," "PacifiCare of Colorado," or "the Plan.")

On August 24, 2009, the United States Office of Personnel Management, Office of the Inspector General ("OPM/OIG") submitted to the Plan a "Draft Report" (1C-D6-00-09-005) ("Draft Report"), detailing the results of its audit of the Federal Employee Health Benefits Program ("FEHBP") operations of PacifiCare of Colorado for Contract Years 2005 through 2008. Upon submission, OPM/OIG requested that the Plan provide comments to the Draft Report. The Plan appreciates the opportunity to respond to this Draft Report.

At the time of the audit, the Plan discussed with the OIG auditors the erroneous payment of claims for non-covered eye exercises. The Plan also informed OIG that the Plan had subsequently made corrections to its claims system that would prevent such erroneous payments in the future. The Plan agrees to monitor its claims system that tracks eye exercises to ensure that these claims are being reviewed and rejected as a non-covered benefit.

The total amount erroneously paid was \$1,000.00. It is the Plan's understanding that this amount had no significant impact on the 2008 rates and no amounts are due OPM on this issue.

Please contact me at the address, phone number or e-mail on this letterhead if you have any questions or require additional information. We appreciate your ongoing cooperation.

Very truly yours,

LOCKE, LORD, BISSELL & LIDDELL LLP

[REDACTED]

cc:

[REDACTED]
Director, Underwriting
UnitedHealthcare