



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 at Humana Health Plans of Puerto Rico, Inc.

Report No. 1C-ZJ-00-10-056

Date: April 13, 2011

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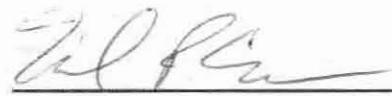
Office of the
Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Community-Rated Health Maintenance Organization
Humana Health Plans of Puerto Rico, Inc.
Contract Number 2872 - Plan Code ZJ
San Juan, Puerto Rico

Report No. 1C-ZJ-00-10-056

Date: April 13, 2011



Michael R. Esser
Assistant Inspector General
for Audits



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
Humana Health Plans of Puerto Rico, Inc.
Contract Number 2872 - Plan Code ZJ
San Juan, Puerto Rico**

Report No. 1C-ZJ-00-10-056

Date: April 13, 2011

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Health Plans of Puerto Rico, Inc. (Plan). The audit covered contract years 2005 through 2010 and was conducted at the Plan's office in San Juan, Puerto Rico. Additional audit work was performed at our offices in Jacksonville, Florida, and Washington, D.C.

This report questions \$208,502 for inappropriate health benefit charges to the FEHBP in contract years 2005 and 2009. The questioned amount includes \$177,710 for defective pricing and \$30,792 due to the FEHBP for lost investment income, calculated through December 31, 2010. 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, 2008, and 2010.

In contract year 2005, we determined that the FEHBP's rates were overstated by \$98,906 because the Plan overstated the medical claims used in the rate development. The medical claims included a dental fee for service claims, which were disallowed, because dental was a non-FEHBP benefit for contract year 2005. Therefore, the dental claims should not be included in the total medical claims. Additionally, we found that the Plan failed to apply a 1.49 percent discount to the FEHBP that was given to American Airlines, a similarly sized subscriber group.

In 2009, we determined that the FEHBP's rates were overstated by \$78,804 because the Plan incorrectly calculated the FEHBP's special benefit loading adjustments.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$30,792 for lost investment income, calculated through December 31, 2010, on the defective pricing findings. In addition, we recommend that the contracting officer recover lost investment income starting January 1, 2011, 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 Humana Health Plans of Puerto Rico, Inc. (Plan). The audit covered contract years 2005 through 2010 and was conducted at the Plan's office in San Juan, Puerto Rico. The audit was conducted pursuant to the provisions of Contract CS 2872; 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.

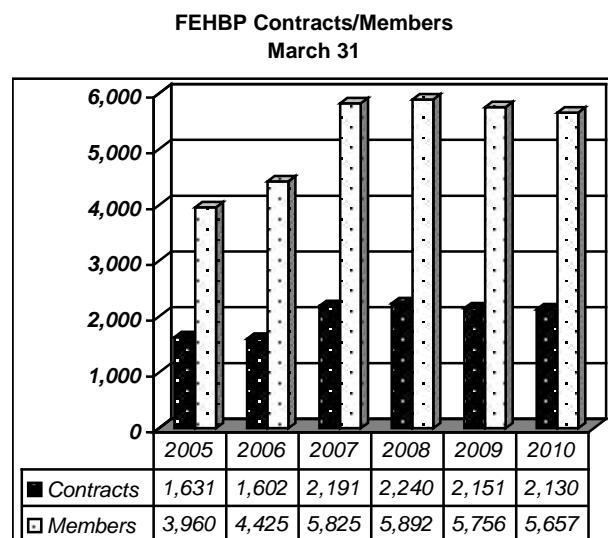
Background

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 Healthcare and Insurance 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 2003 and provides health benefits to FEHBP members throughout Puerto Rico. This is the first audit of the Plan conducted by our office since the start of its participation in the FEHBP.

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.

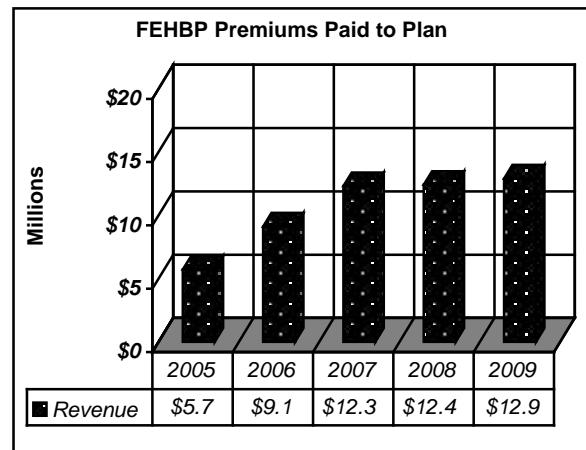
II. OBJECTIVES, SCOPE, AND METHODOLOGY

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 2005 through 2010. For contract years 2005 through 2009, the FEHBP paid approximately \$52.4 million in premiums to the Plan.¹ 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.

¹ The Subscription Income Report for 2010 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 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 San Juan, Puerto Rico, during August 2010. 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. Further, we examined claim payments to verify that the cost data used to develop the FEHBP rates was accurate, complete, and valid. 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 **\$177,710**

The Certificates of Accurate Pricing the Plan signed for contract years 2005 and 2009 were defective. In accordance with federal regulations, the FEHBP is therefore due a rate reduction for these years. Application of the defective pricing remedies shows that the FEHBP is entitled to premium adjustments totaling \$177,710 (see Exhibit A). We found that the FEHBP rates were developed in accordance with OPM's rules and regulations for contract years 2006, 2007, 2008, and 2010.

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 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.

2005

The Plan selected [REDACTED] as the SSSGs for contract year 2005. We agree with these selections. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] percent discount, while [REDACTED] did not receive any discount. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we applied the [REDACTED] percent discount given to [REDACTED] when we computed the FEHBP rates.

Additionally in 2005, the medical claims used in the FEHBP rate development included claims for a dental fee for service benefit. During contract year 2005, dental was not a covered FEHBP benefit; therefore, dental claims should not have been used when developing the FEHBP rate.

We recalculated the FEHBP rates using the [REDACTED] percent discount given to [REDACTED] and removing the dental claims from the FEHBP rate development. A comparison of our audited rates to the reconciled rates shows that the FEHBP was overcharged \$98,906 in 2005 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan concurs with the defective pricing charges in their entirety for contract year 2005.

2009

The Plan incorrectly calculated the FEHBP's special benefit loading adjustments in contract year 2009. In calculating the FEHBP's special benefit loading adjustments, the Plan failed to apply the self per member per month ratio to the bi-weekly change per cost per member to determine the self rate. We re-developed the FEHBP rates by applying the self per member per month ratio. A comparison of the audited rates to the reconciled rates shows that the FEHBP was overcharged \$78,804 in 2009 (see Exhibit B).

Plan's Comments (See Appendix):

The Plan concurs with the defective pricing charges in their entirety for contract year 2009.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$177,710 to the FEHBP for defective pricing in contract years 2005 and 2009.

2. Lost Investment Income **\$30,792**

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 2005 and 2009. We determined that the FEHBP is due \$30,792 for lost investment income, calculated through December 31, 2010 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning January 1, 2011, until all defective pricing finding amounts have been returned to the FEHBP.

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 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 concurs with the lost investment income finding on the defective pricing charges in contract years 2005 and 2009.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$30,792 to the FEHBP for lost investment income, calculated through December 31, 2010. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning January 1, 2011, until all defective pricing amounts have been returned to the FEHBP.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Community-Rated Audits Group

[REDACTED], Auditor-in-Charge

[REDACTED] Auditor

[REDACTED], Auditor

[REDACTED], Auditor

[REDACTED], Chief

[REDACTED], Senior Team Leader

Humana Health Plans of Puerto Rico, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs:

Contract Year 2005	\$98,906
Contract Year 2009	<u>\$78,804</u>

Total Defective Pricing Questioned Costs:	\$177,710
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Lost Investment Income:	<u>\$30,792</u>
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<i>Total Questioned Costs:</i>	<u>\$208,502</u>
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Humana Health Plans of Puerto Rico, Inc.
Defective Pricing Questioned Costs

2005

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]
Overcharge	[REDACTED]	[REDACTED]
To Annualize Overcharge:		
3/31/05 enrollment	[REDACTED]	[REDACTED]
Pay Periods	<u>26</u>	<u>26</u>
Subtotal	[REDACTED]	[REDACTED]
Total 2005 Questioned Costs		\$98,906

2009

	<u>Self</u>	<u>Family</u>
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]
Overcharge	[REDACTED]	[REDACTED]
To Annualize Overcharge:		
3/31/09 enrollment	[REDACTED]	[REDACTED]
Pay Periods	<u>26</u>	<u>26</u>
Subtotal	[REDACTED]	[REDACTED]
Total 2009 Questioned Costs		<u>\$78,804</u>
Total Defective Pricing Questioned Costs		<u>\$177,710</u>

Humana Health Plans of Puerto Rico, Inc.
Lost Investment Income

Year	2005	2006	2007	2008	2009	2010	Total
Audit Findings:							
1. Defective Pricing	\$98,906	\$0	\$0	\$0	\$78,804	\$0	\$177,710
Totals (per year):	\$98,906	\$0	\$0	\$0	\$78,804	\$0	\$177,710
Cumulative Totals:	\$98,906	\$98,906	\$98,906	\$98,906	\$177,710	\$177,710	\$751,044
Avg. Interest Rate (per year):	4.375%	5.438%	5.500%	4.938%	5.250%	3.188%	
Interest on Prior Years Findings:	\$0	\$5,378	\$5,440	\$4,883	\$5,193	\$5,665	\$26,559
Current Years Interest:	<u>\$2,164</u>	\$0	\$0	\$0	\$2,069	\$0	\$4,233
Total Cumulative Interest Calculated Through Dec. 31, 2010:	\$2,164	\$5,378	\$5,440	\$4,883	\$7,262	\$5,665	\$30,792

HUMANA RESPONSE TO DRAFT AUDIT REPORT NO. 1C-ZJ-00-10-056 Appendix

This document is submitted by Humana Health Plans of Puerto Rico, Inc. ("Humana") and responds to the Draft Audit Report dated December 8, 2010 (the "Audit Report") issued by the Office of Inspector General of the Office of Personnel Management ("OPM") regarding the Humana FEHBP Contract Number 2872 for contract years 2005-2010.

The Audit Report questions inappropriate charges for contract years 2005, 2007, 2008 and 2009 totaling \$766,063 (see Exhibit 1) consisting of defective pricing charges of \$662,821 and \$103,242 due the FEHBP for lost investment income through 12/31/2010.

Humana concurs with the defective pricing charges in entirety for contract years 2005 and 2009 totaling \$177,710 and an additional amount of \$30,792 due the FEHBP for lost investment income through 12/31/2010, for a total concession of \$208,502 (see Exhibit 1A).

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Exhibit 1A

HUMANA'S RESPONSE TO DRAFT AUDIT REPORT - CHARGES INCLUDING LOST INVESTMENT INCOME
Humana Health Plans of Puerto Rico, Inc.