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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 at Humana Health Plan of Texas**

**Report No. 1C-UR-00-08-030**

**Date: December 16, 2008**

**--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  
Comprehensive Medical Plan - Community-Rated  
Humana Health Plan of Texas  
Contract Number 1895 - Plan Code UR  
Louisville, Kentucky**

Report No. 1C-UR-00-08-030

Date: December 16, 2008

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  
Comprehensive Medical Plan - Community-Rated  
Humana Health Plan of Texas  
Contract Number 1895 - Plan Code UR  
Louisville, Kentucky**

**Report No. 1C-UR-00-08-030**

**Date: December 16, 2008**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Health Plan of Texas (Plan). The audit covered contract years 2005 through 2007 and was conducted at the Plan's office in Louisville, Kentucky. Additional field work was performed at our office in Washington, D.C.

This report questions \$328,992 for inappropriate health benefit charges to the FEHBP in contract years 2005 and 2007. The questioned amount includes \$300,577 for defective pricing and \$28,415 due the FEHBP for lost investment income, calculated through October 31, 2008. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in 2006.

For contract years 2005 and 2007, we determined that the FEHBP's rates were overstated by \$300,577 due to defective pricing. More specifically, the Plan did not apply the correct discounts given to a similarly sized subscriber group to the FEHBP rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$28,415 for lost investment income, calculated through October 31, 2008, on the defective pricing findings.

The Plan agreed with the findings and remitted a check for \$328,992.

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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 Plan of Texas (Plan) in Louisville, Kentucky. The audit covered contract years 2005 through 2007. The audit was conducted pursuant to the provisions of Contract 1895; 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.

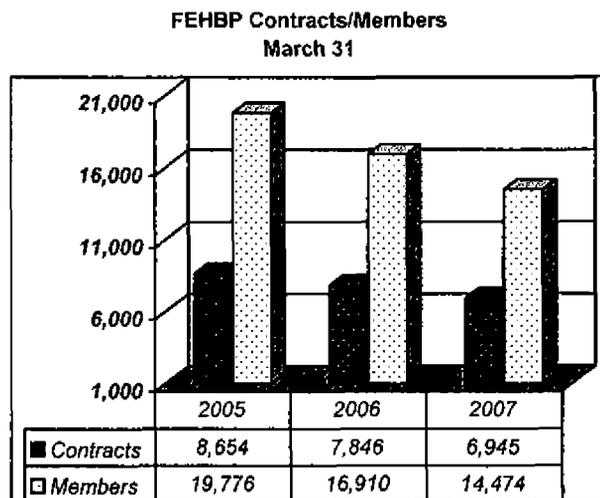
## Background

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.



The Plan began participating in the FEHBP as a community-rated comprehensive medical plan in 1987 and provides comprehensive medical services to FEHBP members throughout the San Antonio area. The last audit of the Plan conducted by our office was a full scope audit of contract years 2000 through 2004. All issues related to that audit have been resolved.

The preliminary results of this audit were discussed with Plan officials at an exit conference. 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

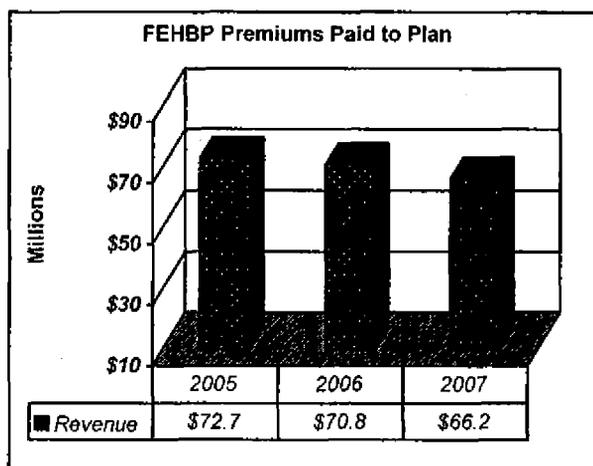
The primary objectives of the audit were to verify that the Plan offered market price rates to the FEHBP and to verify that the loadings to the FEHBP rates were reasonable and equitable. Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and 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 2007. During this period, the FEHBP paid approximately \$209.7 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 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 the Plan's office in Louisville, Kentucky, during April 2008. Additional audit work was completed at our office in Washington, D.C.

### **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**

**\$300,577**

The Certificates of Accurate Pricing the Plan signed in contract years 2005 and 2007 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 \$300,577 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the OPM's rules and regulations for contract year 2006.

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 and [REDACTED] received a [REDACTED] percent discount. In the 2005 reconciliation, the Plan gave the FEHBP a [REDACTED] percent discount. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we recalculated the FEHBP rates using the [REDACTED] discount given [REDACTED]. A comparison of the audited rates to the reconciled rates shows that the FEHBP was overcharged \$75,006 in contract year 2005 (see Exhibit B).

##### **2007**

The Plan selected [REDACTED] as the SSSGs for contract year 2007. We agree with these selections. Our analysis of the SSSG rates shows that [REDACTED] received a [REDACTED] percent discount, while [REDACTED] did not receive a discount. In the 2007 reconciliation, the Plan gave the FEHBP a [REDACTED] percent discount. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, we recalculated the FEHBP rates using the [REDACTED] discount given to [REDACTED]. A comparison of the audited rates to the reconciled rates shows that the FEHBP was overcharged \$225,571 in contract year 2007 (see Exhibit B).

### **Recommendation 1**

After receiving the draft audit report, the Plan returned \$300,577 to the FEHBP for defective pricing in the contract years 2005 and 2007. Since we verified that the Plan returned \$300,577 to the FEHBP, no further action is required.

### **2. Lost Investment Income**

**\$28,415**

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 2007. We determined that the FEHBP is due \$28,415 for lost investment income, calculated through October 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 audit report, the Plan returned \$28,415 to the FEHBP for lost investment income on the defective pricing findings in contract years 2005 and 2007. Since we verified that the Plan returned \$28,415 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 \$328,992 (\$300,577 + \$28,415).

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

##### Community-Rated Audits Group

██████████ Auditor-In-Charge

██████████ Auditor

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██████████ Group Chief

██████████ Senior Team Leader

**Humana Health Plan of Texas  
Summary of Questioned Costs**

**Defective Pricing Questioned Costs:**

Contract Year 2005 \$75,006

Contract Year 2007 \$225,571

Total Defective Pricing Questioned Costs \$300,577

**Lost Investment Income on Defective Pricing Findings** \$28,415

**Total Questioned Costs** \$328,992

**Humana Health Plan of Texas**  
**Defective Pricing Questioned Costs**

**2005**

**High Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
x 3/31/05 enrollment			
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$11,466	\$35,977	\$47,443

**Standard Option**

FEHBP Line 5 - Reconciled Rate			
FEHBP Line 5 - Audited Rate			
Overcharge			
To Annualize Overcharge:			
x 3/31/05 enrollment			
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$3,908	\$23,655	<u>\$27,563</u>

Total 2005 Defective Pricing Questioned Costs \$75,006

**Humana Health Plan of Texas  
Defective Pricing Questioned Costs**

**2007**

**High Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	[REDACTED]		
FEHBP Line 5 - Audited Rate	[REDACTED]		
Overcharge	[REDACTED]		
To Annualize Overcharge:			
x 3/31/07 enrollment	[REDACTED]		
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$67,959	\$144,367	<b>\$212,326</b>

**Standard Option**

FEHBP Line 5 - Reconciled Rate	[REDACTED]		
FEHBP Line 5 - Audited Rate	[REDACTED]		
Overcharge	[REDACTED]		
To Annualize Overcharge:			
x 3/31/07 enrollment	[REDACTED]		
x Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$1,962	\$11,283	<b><u>\$13,245</u></b>

Total 2007 Defective Pricing Questioned Costs **\$225,571**

**Humana Health Plan of Texas  
Lost Investment Income**

<b>Year</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>
<b>Audit Findings:</b>					
1. Defective Pricing	\$75,006	\$0	\$225,571	\$0	\$300,577
<hr/>					
Totals (per year):	\$75,006	\$0	\$225,571	\$0	\$300,577
Cumulative Totals:	\$75,006	\$75,006	\$300,577	\$300,577	\$300,577
Avg. Interest Rate (per year):	4.375%	5.4375%	5.5000%	4.9375%	
Interest on Prior Years Findings:	\$0	\$4,078	\$4,125	\$12,368	\$20,571
Current Years Interest:	\$1,641	\$0	\$6,203	\$0	\$7,844
<hr/>					
Total Cumulative Interest Calculated Through October 31, 2008:	\$1,641	\$4,078	\$10,328	\$12,368	\$28,415

**From:** [REDACTED]

**Sent:** Thursday, November 13, 2008 5:14 PM

**To:** [REDACTED]

**Subject:** Humana Response to Draft Audit Report 1C-UR-00-08-030

**APPENDIX**

[REDACTED] this email should serve as documentation that Humana agrees with all findings contained in the Draft Audit Report of Humana Health Plan of Texas (plan code UR) issued August 8, 2008.

We agree with the audit findings of \$300,577 in inappropriate, or defective pricing, charges plus accumulated interest charges totalling \$28,415.

The total charges of \$328,992 was remitted to OPM last week.

[REDACTED]  
Actuary, FEHBP & IL Region  
Large Group Actuarial  
Humana Inc.

[REDACTED]  
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