U.S. OFFICE OF PERSONNEL MANAGEMENT

OFFICE OF THE INSPECTOR GENERAL

OFFICE OF AUDITS

Final Audit Report

AUDIT OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM OPERATIONS AT HUMANA BENEFIT PLAN OF ILLINOIS, INC.

Report Number 1C-9F-00-15-010

October 28, 2015

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EXECUTIVE SUMMARY

Audit of the Federal Employees Health Benefits Program Operations at Humana Benefit Plan of Illinois, Inc.

Report No. 1C-9F-00-15-010 **October 28, 2015**

Why Did We Conduct The Audit?

The primary objectives of the audit were to determine if Humana Benefit Plan of Illinois, Inc. (Plan) developed the Federal Employees Health Benefits Program (FEHBP) premium rates using complete, accurate and current data, and that the rates were equivalent to the Plan's Similarly Sized Subscriber Groups, as provided in Federal Employees Health Benefits Acquisition Regulation 1652.215-70(a). Additional tests were performed to determine whether the Plan was in compliance with the provisions of the laws and regulations governing the FEHBP.

What Did We Audit?

Under contracts 2829-A and 2829-B, the Office of the Inspector General completed a performance audit of the FEHBP's rates offered for contract years 2010 through 2012. Our audit fieldwork was conducted from December 1, 2014 through December 11, 2014 at the Plan's office in Louisville, Kentucky.

Michael R. Esser
Assistant Inspector General for Audits

What Did We Find?

This report questions $362,995 for inappropriate health benefit charges to the FEHBP in contract year 2010. The questioned amount includes $326,013 for defective pricing and $36,982 due the FEHBP for lost investment income, calculated through September 30, 2015.

We determined that the FEHBP rates were developed by the Plan in accordance with applicable laws, regulations, and the U.S. Office of Personnel Management's Rate Instructions to Community-Rated Carriers for contract years 2011 and 2012.

ABBREVIATIONS

CFR	**Code of Federal Regulations**
FEHBAR	**Federal Employees Health Benefits Program Acquisition Regulations**
FEHBP	**Federal Employees Health Benefits Program**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
OSF	**OSF HealthPlans, Inc.**
Plan	**Humana Medical Plan of Illinois, Inc.**
SSSG	**Similarly Sized Subscriber Group**
U.S.C.	**United States Code**

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I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Benefit Plan of Illinois, Inc. (Plan). The audit covered contract years 2010 through 2012, and was conducted at the Plan's office in Louisville, Kentucky.

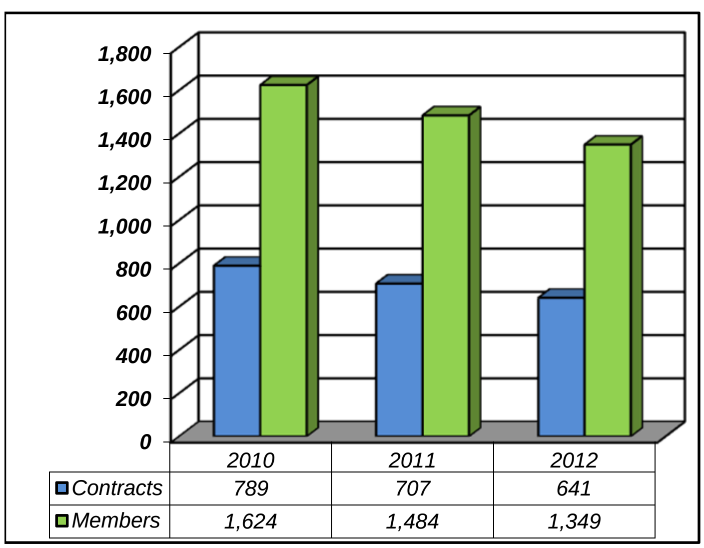
The audit was conducted pursuant to FEHBP contracts CS 2829-A (High Option) and CS 2829-B (Standard Option); 5 U.S.C. Chapter 89; and 5 Code of Federal Regulations (CFR) Chapter 1, Part 890. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

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 and is administered by OPM's Healthcare and Insurance Office. 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 premium rate that is equivalent to the best rate given 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 combined number of high and standard option

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 1998 and provides health benefits to FEHBP members in the Central and Northwestern Illinois areas. A prior audit of this plan code was conducted in 2010. All findings associated with 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 response was considered in preparation of this report and is included, as appropriate, as the Appendix to the report.

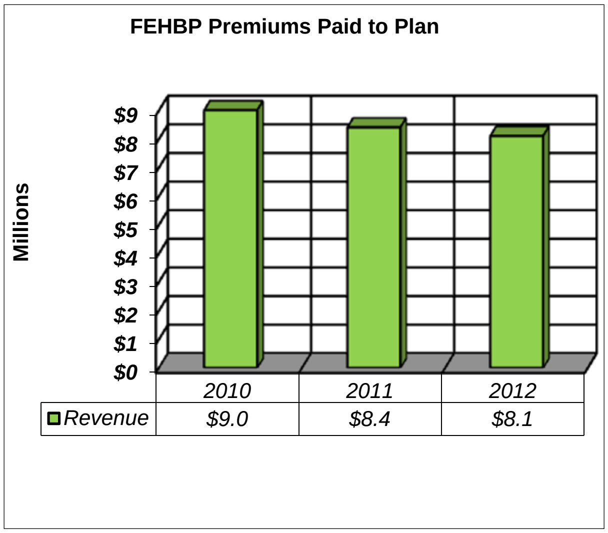
II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The primary objectives of the audit were to determine if the FEHBP premium rates were developed using complete, accurate and current data, and were equivalent to the Plan's Similarly Sized Subscriber Groups (SSSG), as provided in Federal Employees Health Benefits Acquisition Regulation (FEHBAR) 1652.215-70(a). 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 2010 through 2012. For these years, the FEHBP paid approximately $25.5 million in premiums to the Plan.

OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and the Rate Instructions to Community-Rated Carriers (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 had in place to ensure that:

- The appropriate SSSGs were selected;

- the rates charged to the FEHBP were developed using complete, accurate and current data, and equivalent to the best rate given 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 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 in December 2014 at the Plan’s office in Louisville, Kentucky.

Methodology

We examined the Plan’s Federal rate submission and related documents as a basis for validating its Certificates of Accurate Pricing. In addition, we examined the rate development documentation and billings to other groups, such as the SSSGs, to determine if the FEHBP rates were reasonable and equitable. Finally, we used the contract, the FEHBAR, and the rate instructions 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 policies and procedures, interviewed appropriate Plan officials, and performed other auditing procedures necessary to meet our audit objectives.

III. AUDIT FINDINGS AND RECOMMENDATIONS

1. Defective Pricing **$326,013**

The Certificate of Accurate Pricing the Plan signed for contract year 2010 was defective. In accordance with Federal regulations, the FEHBP is therefore due a rate reduction for this year. Application of the defective pricing remedy shows that the FEHBP is due a premium adjustment totaling $326,013 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM's rules and regulations in contract years 2011 and 2012.

The FEHBP is due a rate reduction of $326,013 for defective pricing in contract year 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 are complete, accurate and current. Furthermore, FEHBAR 1652.216-70 states that the subscription rates agreed to in the contract shall be equivalent to the subscription rates given to the community-rated carrier's SSSGs as defined in FEHBAR 1602.170-13. SSSGs are the Plan's two employer groups closest in subscriber size to the FEHBP. If it is found that the FEHBP rates were increased because of defective pricing or defective cost or pricing data, then the rates shall be reduced in the amount by which the price was increased because of the defective data or information.

__2010__

The Plan selected [redacted] and [redacted] as SSSGs for contract year 2010. We agree with [redacted] but disagree with [redacted], which terminated their contract with the Plan. We chose [redacted] instead. 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 applied a [redacted] percent SSSG discount to the FEHBP rates in the 2010 reconciliation.

Our review of the FEHBP rates showed that the capitation support we received for the high option was different than what the Plan used in its rate development. The support showed $103,537, however, the Plan used $114,806 in its rate development.

Also for the FEHBP, the Plan did not account for an emergency room copay change in the high option from $100 in 2008 to $150 in 2009. We calculated a benefit change factor of [redacted] and applied it to the 2008 claims experience. Also, the Plan did not account for a high option prescription drug copay benefit change from $10/20/40 in 2008 to $10/30/50 in 2009. We calculated a benefit change factor of [redacted] and applied it to the 2008 claims experience.

The [redacted] documentation provided by the Plan supported slight differences in subscriber and member data for the active and COBRA hourly subgroups than what was used at the time of rating. Additionally, we found that the hourly subgroup benefit change factor from 2009 to 2010 was [redacted], instead of the Plan's factor of [redacted]. We also adjusted the salary subgroups benefit change factor to [redacted]. The Plan used a factor of [redacted]. These changes to the [redacted] rate development resulted in the group receiving a [redacted] percent discount.

We recalculated the FEHBP rates using the [redacted] percent discount given to [redacted]. A comparison of our audited rates to the Plan's reconciled rates shows that the FEHBP was overcharged $215,461 and $110,552, for the high and standard options, respectively (see Exhibit B).

Plan's Response (see Appendix):

The Plan agrees with the corrections made to the FEHBP rate development. Additionally, the Plan agrees with the correction made to the enrollment figures and benefit change factors for [redacted]. However, the Plan disagrees with the use of the original manual rates of $491.73 for hourly employees and $489.66 for salary employees. The Plan developed the manual rates during its response to the draft report and calculated $465.63 for hourly employees and $459.99 for salary employees.

OIG Comment:

The Plan does not have original source documentation to support the [redacted] manual rates calculated and used at the time of rating. The revised manual rates the Plan calculated in response to the draft report are significantly lower than the original manual rates and are not based on original source documentation. Since the group's rates were developed and billed based on the original manual rate pricing, we have accepted the manual rates in the Plan's [redacted] rate development.

Recommendation 1

We recommend that the contracting officer require the Plan to return $326,013 to the FEHBP for defective pricing in contract year 2010.

2. Lost Investment Income **$36,982**

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 finding in contract year 2010. We determined the FEHBP is due $36,982 for lost investment income, calculated through September 30, 2015 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning October 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

The FEHBP is due lost investment income on the defective pricing finding in the amount of $36,982.

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.

Plan's Response (see Appendix):

The Plan agrees lost investment income should be applied for defective pricing findings.

Recommendation 2

We recommend that the contracting officer require the Plan to return $36,982 to the FEHBP for lost investment income, calculated through September 30, 2015. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning October 1, 2015, until all defective pricing amounts have been returned to the FEHBP.

3. Record Retention

The Plan did not provide original source documentation to support the manual rates charged to [redacted] in 2010.

FEHBAR 1652.204-70 states the carrier will retain and make available all records applicable to a contract term for a period of six years after the end of the contract term to which the records relate.

Without appropriate source documentation, it is difficult to determine if the FEHBP rates were established in accordance with the Plan's contract, applicable regulations, and the rate instructions. Under these circumstances, we may have to depend on other data, and at times, different rating methodologies to determine the appropriateness of the FEHBP rates. Due to this, the outcome of our analysis may result in a less desirable outcome to the Plan.

Plan's Response (see Appendix):

In 2010, the Plan acquired OSF HealthPlans, Inc. (OSF) and performed the FEHBP renewal calculation. The SSSGs changed after the FEHBP renewal had been completed, due to one SSSG not renewing with the Plan, resulting in [redacted] being designated as the new SSSG. During the [redacted] renewal, the Plan was in the process of changing from OSF's rating platform to the Plan's rating platform. In the course of the conversion, the manual rate was computed but unfortunately, the underwriter did not store the quote.

OIG's Comment:

We recognize there is difficulty in obtaining and maintaining original source documentation during an acquisition of another health plan. We also recognize that [redacted] was not originally chosen by the Plan as an SSSG.

Recommendation 3

We recommend the contracting officer inform the Plan that:

- OPM expects it to fully comply with the record retention provision of the contract and all applicable regulations;
- it should maintain original copies of all pertinent rating documents that support the calculations used in the rate development; and,
- the applicable community-rated performance factors described in FEHBAR 1609.7101-2 will be enforced if information requested during an audit is not provided.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

COMMUNITY-RATED AUDITS GROUP

[redacted], Auditor-in-Charge

[redacted], Lead Auditor

[redacted], Lead Auditor

[redacted], Senior Team Leader

[redacted], Chief

EXHIBIT A

Humana Benefit Plan of Illinois, Inc.
Summary of Questioned Costs

Defective Pricing Questioned Costs		
Contract Year 2010	$326,013	
Total Defective Pricing Questioned Costs		$326,013
Lost Investment Income		$36,982
Total Questioned Costs		**$362,995**

EXHIBIT B

Humana Benefit Plan of Illinois, Inc.
Defective Pricing Questioned Costs

Contract Year 2010- High Option

	Self	Family	
FEHBP Line 5 - Reconciled Rate	$[redacted]	$[redacted]	
FEHBP Line 5 - Audited Rate	$[redacted]	$[redacted]	
Bi-weekly Overcharge	$[redacted]	$[redacted]	
To Annualize Overcharge:			
March 31, 2010 enrollment	[redacted]	[redacted]	
Pay Periods	26	26	
Subtotal	$65,464	$149,997	**$215,461**

Contract Year 2010- Standard Option

	Self	Family	
FEHBP Line 5 - Reconciled Rate	$[redacted]	$[redacted]	
FEHBP Line 5 - Audited Rate	$[redacted]	$[redacted]	
Bi-weekly Overcharge	[redacted]	$[redacted]	
To Annualize Overcharge:			
March 31, 2010 enrollment	[redacted]	[redacted]	
Pay Periods	26	26	
Subtotal	$21,993	$88,559	**$110,552**

Total Defective Pricing Questioned Costs **$326,013**

EXHIBIT C

Humana Benefit Plan of Illinois, Inc.
Lost Investment Income

Year Audit Findings:	2010	2011	2012	2013	2014	30-Sep-15	Total
1. Defective Pricing	$326,013	$0	$0	$0	$0	$0	$326,013
Totals (per year):	$326,013	$0	$0	$0	$0	$0	$326,013
Cumulative Totals:	$326,013	$326,013	$326,013	$326,013	$326,013	$326,013	$326,013
Avg. Interest Rate (per year):	3.1875%	2.5625%	1.8750%	1.5625%	2.0625%	2.2500%	
Interest on Prior Years Findings:	$0	$8,354	$6,113	$5,094	$6,724	$5,501	$31,786
Current Years Interest:	$5,196	$0	$0	$0	$0	$0	$5,196
Total Cumulative Interest Calculated Through September 30, 2015:	$5,196	$8,354	$6,113	$5,094	$6,724	$5,501	**$36,982**

APPENDIX

HUMANA RESPONSE TO DRAFT AUDIT REPORT NO. 1C-9F-00-15-010
RECEIVED ON JUNE 26, 2015

This document is submitted by Humana Benefit Plan of Illinois, Inc. ("Humana") and responds to the Draft Audit Report dated March 30, 2015 issued by the Office of Inspector General of the Office of Personnel Management ("OPM") regarding the Humana FEHBP Contract Number 2829-A & 2829-B – Plan Codes 9F & AB for contract years 2010-2012.

DELETED BY THE OIG – NOT RELEVANT TO THE FINAL REPORT

Humana concurs with the existence of defective pricing, but disagrees with the entirety of auditor's calculation of charges and, and upon agreement with the audit staff with regards to the appropriate amount of charges and subsequent release of the Final Audit report, will remit payment including lost investment income calculation through current.

<u>2010</u>

The Draft Audit Report correctly points out that Humana used an overstated capitation amount for the FEHBP High Option and that the amount of $103,537 is what should have been used. Humana also concedes as stated in the Draft Audit Report that various plan change factors were missing from the FEHBP 2010 renewal rate calc. And further, Humana acknowledges that the SSSG discount factor for [redacted] ("[redacted]") was not entirely passed along to the FEHBP necessitating a defective finding charge.

[redacted] was the SSSG with the larger discount. Humana's 2010 rate reconciliation effectively assumed a discount of [redacted]%, but concedes that this was understated. The correct discount amount should have been [redacted]%. This difference triggers a defective pricing charge of $268,272 and lost investment income of $27,330 calculated through 3/31/2015 for a total conceded amount of $295,602.

Humana is ready and willing to work through the $101,206 discrepancy ($369,478 amount included in the Draft Audit Report, less $268,272 conceded amount) in defective pricing with the auditor. The driver of this discrepancy is the difference among the SSSG discount calculations for [redacted]. The auditor calculated [redacted]% but Humana's position is that the discount was [redacted]%. This disconnect is attributable to plan changes and enrollment counts support used on the renewal rate calc, but not received by the auditor in time to include in the Draft Audit Report. Humana supplied this information in the days leading up to the date of issuance of the Draft Report on 3/30/2015. However the auditor stated on 3/24/2015 in an email that said documentation would no longer be accepted prior to the issuance of the Draft, but instead would be considered before the Final Audit Report is issued.

Humana looks forward to an amicable agreement and resolution of the items causing the discrepancy and will reach out to the audit staff to ensure the documentation needed to support replacing the [redacted]% SSSG discount with [redacted]% was received and is clearly understood.

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