



U.S. 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, Inc.**

**Report No. 1C-UR-00-11-013**

**Date: November 9, 2011**

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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  
Humana Health Plan of Texas, Inc.  
Contract Number CS 1895 - Plan Code UR  
Louisville, Kentucky**

**Report No. 1C-UR-00-11-013**

**Date: November 9, 2011**

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  
Community-Rated Health Maintenance Organization  
Humana Health Plan of Texas, Inc.  
Contract Number CS 1895 - Plan Code UR  
Louisville, Kentucky**

**Report No. 1C-UR-00-11-013**

**Date: November 9, 2011**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Health Plan of Texas, Inc. (Plan). The audit covered contract years 2008 through 2010 and was conducted at the Plan's office in Louisville, Kentucky. Additional field work was performed at our offices in Cranberry Township, Pennsylvania and Jacksonville, Florida.

This report questions \$595,346 for inappropriate health benefit charges to the FEHBP in contract years 2008 and 2010. The questioned amount includes \$541,470 for defective pricing and \$53,876 due the FEHBP for lost investment income, calculated through September 30, 2011. 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 2008 and 2010, we determined that the FEHBP's rates were overstated by \$373,222 and \$168,248, respectively. The overstatement in both years is due to defective pricing. More specifically, the audited discount of a similarly sized subscriber group (SSSG) was larger than the discount calculated by the Plan for 2008. For 2010, we agree with the discount calculated by the Plan for one SSSG, but the Plan did not apply the entire SSSG discount to the FEHBP rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$53,876 for lost investment income, calculated through September 30, 2011, on the defective pricing findings. In addition, we recommend that the contracting officer recover lost investment income starting October 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 Plan of Texas, Inc. (Plan). The audit covered contract years 2008 through 2010 and was conducted at the Plan's office in Louisville, Kentucky. The audit was conducted pursuant to the provisions of Contract CS 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 (OIG), as established by the Inspector General Act of 1978, as amended.

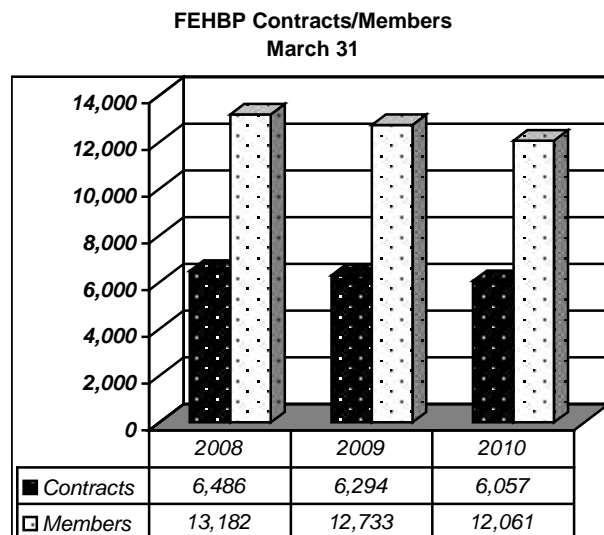
## **Background**

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 1987 and provides health benefits to FEHBP members in the San Antonio, Austin, and Corpus Christi areas. The Plan has been audited before with the most recent final report issued on December 16, 2008. The report questioned \$328,992, including \$28,415 for lost investment income, and covered contract years 2005 through 2007. The findings related to the Plan not giving the full SSSG discount to the FEHBP. The Plan agreed with the findings and returned the appropriate amounts to 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 on June 14, 2011 for review and comment. The Plan's comments were considered in the preparation of this report and are included, as appropriate, as the Appendix.

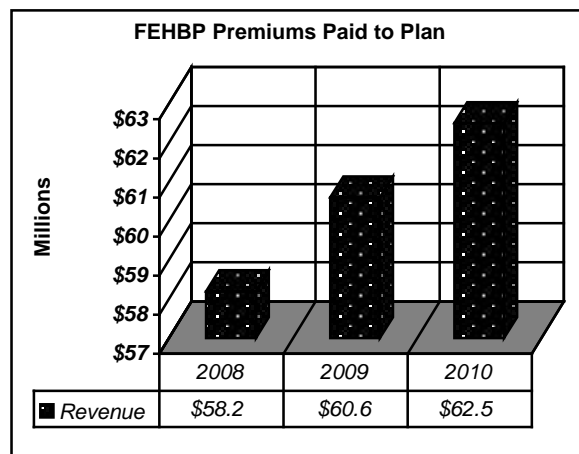
## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **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 2008 through 2010. For these years, the FEHBP paid approximately \$181.3 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 Louisville, Kentucky, during February 2011. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania and Jacksonville, Florida.

### **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 RECOMMENDATIONS**

#### **Premium Rate Review**

##### **1. Defective Pricing**

**\$541,470**

The Certificates of Accurate Pricing Humana Health Plan of Texas, Inc. (Plan) signed for contract years 2008 and 2010 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 \$541,470 (see Exhibit A). We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's (OPM) rules and regulations for contract year 2009.

Federal Employee Health Benefits Acquisition Regulation (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.

#### **2008**

The Plan selected [REDACTED] as the SSSGs for contract year 2008. We agree with the selection of [REDACTED] however, we disagree with the selection of [REDACTED]. Instead, we selected [REDACTED] because [REDACTED] terminated its contract with the Plan on June 30, 2008, which makes it ineligible as an SSSG.

Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount. In the 2008 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, the FEHBP should have received the [REDACTED] percent discount given to [REDACTED].

Our analysis of the [REDACTED] rate development shows that the pooled claims used for the San Antonio region were incorrect. For the pooled claims, the Plan used four large claims totaling \$1,879,393; however, the documentation provided by the Plan only supports three large claims totaling \$1,252,410. When the correction is made, [REDACTED] received a [REDACTED] percent discount.

Accordingly, we re-developed the FEHBP's rates by applying the [REDACTED] percent discount granted to [REDACTED] to our audited line 5 rates. A comparison of our audited line 5

rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$373,222 in contract year 2008 (see Exhibit B).

## **2010**

The Plan selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2010. We agree with these selections. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount.

In the 2010 reconciliation, the Plan applied an "Anticipated SSSG Discount Factor" to the FEHBP rates of [REDACTED] percent. When reviewing both SSSG rate developments, we found [REDACTED] received the highest discount amount of [REDACTED] percent. The Plan however applied the lesser discount of [REDACTED] percent. Since the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG, the FEHBP should have received the [REDACTED] percent discount given to [REDACTED]

Accordingly, we redeveloped the FEHBP rates by applying the [REDACTED] percent discount given to [REDACTED] to our audited line 5 rates. A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$168,248 in contract year 2010 (see Exhibit B).

### **Plan's Comments (See Appendix):**

The Plan agrees with our defective pricing findings for contract years 2008 and 2010.

### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$541,470 to the FEHBP for defective pricing in contract years 2008 and 2010.

## **2. Lost Investment Income **\$53,876****

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 2008 and 2010. We determined that the FEHBP is due \$53,876 for lost investment income, calculated through September 30, 2011 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning October 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 agrees and will include lost investment income calculated through the current date when it remits payment to OPM for defective pricing charges.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$53,876 to the FEHBP for lost investment income for the period January 1, 2008, through September 30, 2011. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning October 1, 2011, 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

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██████████ Chief

██████████, Senior Team Leader

**Humana Health Plan of Texas, Inc.**  
**Summary of Questioned Costs**

Defective Pricing Questioned Costs:

Contract Year 2008	\$373,222
Contract Year 2010	\$168,248

Total Defective Pricing Questioned Costs: \$541,470

Lost Investment Income: \$53,876

***Total Questioned Costs:*** **\$595,346**

**Humana Health Plan of Texas, Inc.  
Defective Pricing Questioned Costs**

**2008**

**High Option**

	<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:			
March 31, 2008 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	<b><u>\$194,590</u></b>

**Standard Option**

FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
To Annualize Overcharge:			
March 31, 2008 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	<b><u>\$178,632</u></b>

Total 2008 Defective Pricing Questioned Costs **\$373,222**

**2010**

**High Option**

	<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:			
March 31, 2010 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	<b><u>\$64,562</u></b>

**Standard Option**

FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
To Annualize Overcharge:			
March 31, 2010 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	<b><u>\$103,686</u></b>

Total 2010 Defective Pricing Questioned Costs **\$168,248**

**Humana Health Plan of Texas, Inc.  
Lost Investment Income**

<b>Year Audit Findings:</b>	2008	2009	2010	2011	Total
1. Defective Pricing	\$373,222	\$0	\$168,248	\$0	\$541,470
Totals (per year):	\$373,222	\$0	\$168,248	\$0	\$541,470
Cumulative Totals:	\$373,222	\$373,222	\$541,470	\$541,470	\$541,470
Avg. Interest Rate (per year):	4.9375%	5.2500%	3.1875%	2.5625%	
Interest on Prior Years Findings:	\$0	\$19,594	\$11,896	\$10,491	\$41,981
Current Years Interest:	\$9,214	\$0	\$2,681	\$0	\$11,895
Total Cumulative Interest Calculated Through September 30, 2011:	\$9,214	\$19,594	\$14,577	\$10,491	<b>\$53,876</b>



## HUMANA RESPONSE TO DRAFT AUDIT REPORT NO. 1C-UR-00-11-013

This document is submitted by Humana Health Plan of Texas, Inc. ("Humana") and responds to the Draft Audit Report dated June 14, 2011 issued by the Office of Inspector General of the Office of Personnel Management ("OPM") regarding the Humana FEHBP Contract Number 1895 – Plan Code UR for contract years 2008-2010.

The Audit Report questions inappropriate charges for contract years 2008 and 2010 totaling \$590,741 consisting of defective pricing charges of \$541,470 and \$49,271 due the FEHBP for lost investment income through 5/31/2011.

Humana concurs with all of the defective pricing charges and, upon release of the Final Audit report will remit payment including lost investment income calculation through current.

The following are simply clarifications or wording corrections contained in the Draft Audit Report.

### 2008

[REDACTED] was one of the two SSSGs in contract year. The name comes from the fact that [REDACTED]

[REDACTED]

[REDACTED] was the other SSSG and its selection was appropriate because although [REDACTED] had closer enrollment as of 3/31/2008, its contract with Humana terminated at 6/30/2008.