



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 Medical Plan, Inc. – South Florida**

**Report No. 1C-EE-00-13-006**

**Date: July 10, 2013**

**-- CAUTION --**

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

## AUDIT REPORT

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Humana Medical Plan, Inc. – South Florida  
Contract Number CS 2110 - Plan Code EE  
Louisville, Kentucky**

Report No. 1C-EE-00-13-006

Date: 7/10/13



---

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

-- CAUTION --

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

---

## EXECUTIVE SUMMARY

---

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Humana Medical Plan, Inc. – South Florida  
Contract Number CS 2110 - Plan Code EE  
Louisville, Kentucky**

**Report No. 1C-EE-00-13-006**

**Date: 7/10/13**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Medical Plan, Inc. - South Florida (Plan). The audit covered contract years 2010 through 2012, and was conducted at the Plan's office in Louisville, Kentucky.

This report questions \$101,227 for inappropriate health benefit charges to the FEHBP in contract year 2010, including \$6,270 for lost investment income through May 31, 2013. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management's rules and regulations for contract years 2011 and 2012.

For contract year 2010, we determined that the FEHBP's rates were overstated by \$94,957 due to defective pricing. More specifically, the Plan did not apply the correct SSSG discount to the FEHBP rates.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$6,270 for lost investment income, calculated through May 31, 2013, on the defective pricing finding. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning June 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

# CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	5
Premium Rate Review .....	5
1. Defective Pricing.....	5
2. Lost Investment Income.....	6
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	7
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	
Appendix (Humana Medical Plan, Inc.-South Florida’s June 17, 2013, response to the draft report)	

# **I. INTRODUCTION AND BACKGROUND**

## **Introduction**

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Medical Plan, Inc. – South Florida (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 the provisions of Contract CS 2110; 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.

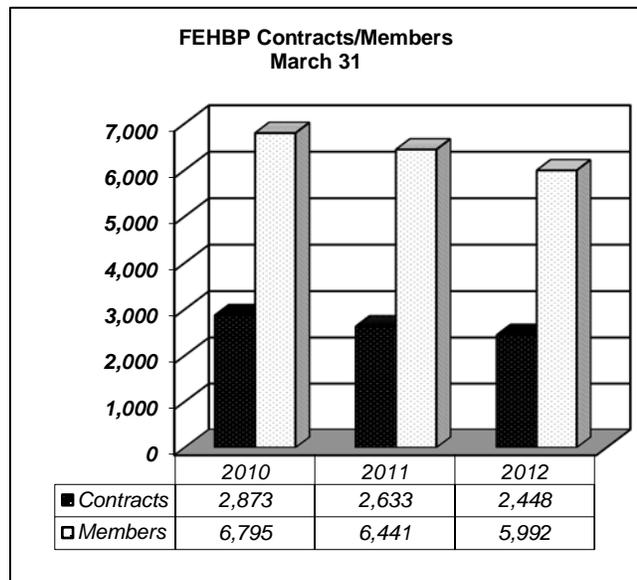
## **Background**

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 1989 and provides health benefits to FEHBP members in the South Florida area. The last audit of the Plan conducted by our office was in 2009, and covered contract years 2006 through 2009. The prior audit identified a procedural issue with the Plan claims data submission. During our prior review of the Plan's claims data submissions for 2007 through 2009, we noted several claims that were inappropriately unbundled. The noted exceptions were addressed; however, there were no monies due the FEHBP. All issues related to that audit were 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 comments were considered in preparation of this report and included, as appropriate, in the Appendix.

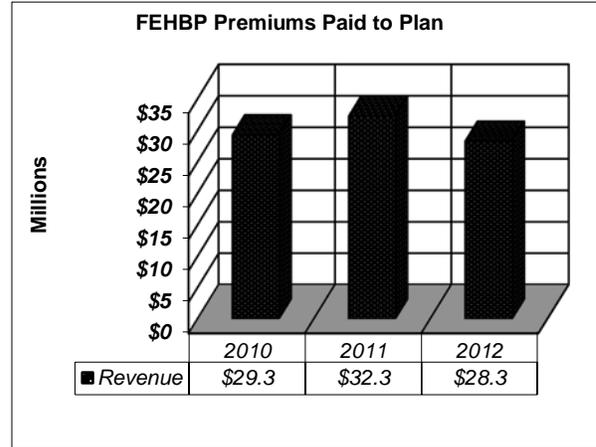
## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **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 2010 through 2012. For these years, the FEHBP paid approximately \$89.9 million in premiums to the Plan, as 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 conducted at the Plan's office in Louisville, Kentucky, during October 2012. Additional audit work was completed at our office located 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 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 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**

**\$94,957**

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 entitled to a premium adjustment totaling \$94,957 (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.

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. SSSGs are the Plan's two employer groups closest in size to the FEHBP. If it is found that the FEHBP was charged higher than the 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 rate.

#### **2010**

The Plan selected the [REDACTED] as 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 the [REDACTED] received a [REDACTED] percent discount. The Plan originally applied a [REDACTED] percent discount to the FEHBP in the reconciliation. However, the FEHBP is entitled to a discount equivalent to the largest discount given to an SSSG. 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 \$94,957 in contract year 2010 (see Exhibit B).

#### **Plan's Comments (see Appendix)**

The Plan had no issues or concerns with this finding.

#### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$94,957 to the FEHBP for defective pricing in contract year 2010 (see Exhibit B).

## **2. Lost Investment Income**

**\$6,270**

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 finding in contract year 2010. We determined that the FEHBP is due \$6,270 for lost investment income, calculated through May 31, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning June 1, 2013, 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 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 Comments (see Appendix)**

The Plan had no issues or concerns with this finding.

### **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$6,270 to the FEHBP for lost investment income, calculated through May 31, 2013. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning June 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

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

### **Community-Rated Audits Group**

██████████ Auditor-in-Charge

██████████, Auditor

---

██████████., Chief

██████████, Senior Team Leader

**Humana Medical Plan, Inc. - South Florida  
Summary of Questioned Costs**

Defective Pricing Questioned Costs

Contract Year 2010 \$94,957

Total Defective Pricing Questioned Costs **\$94,957**

Lost Investment Income **\$6,270**

Total Questioned Costs **\$101,227**

**Humana Medical Plan, Inc. - South Florida  
Defective Pricing Questioned Costs**

<u>2010</u>	<u>Self</u>	<u>Family</u>	
<b><u>High Option</u></b>			
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Bi-weekly Overcharge	■	■	
To Annualize Overcharge:			
March 31, 2010 Enrollment	■	■	
x 26 Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	■	■	<b>\$88,609</b>
<b><u>Standard Option</u></b>			
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Bi-weekly Overcharge	■	■	
To Annualize Overcharge:			
March 31, 2010 Enrollment	■	■	
x 26 Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	■	■	<b><u>\$6,348</u></b>
 <b>Total Defective Pricing Questioned Costs</b>			 <b><u>\$94,957</u></b>

**Humana Medical Plan, Inc. - South Florida  
Lost Investment Income**

<b>Year</b>	2010	2011	2012	31-May-2013	Total
<b>Audit Findings:</b>					
1. Defective Pricing	\$94,957	\$0	\$0	\$0	\$94,957
Totals (per year):	\$94,957	\$0	\$0	\$0	\$94,957
Cumulative Totals:	\$94,957	\$94,957	\$94,957	\$94,957	
Avg. Interest Rate (per year):	3.1875%	2.5625%	1.8750%	1.3750%	
Interest on Prior Years Findings:	\$0	\$2,433	\$1,780	\$544	\$4,757
Current Years Interest:	\$1,513	\$0	\$0	\$0	\$1,513
Total Cumulative Interest Calculated Through May 31, 2013:	\$1,513	\$2,433	\$1,780	\$544	<b>\$6,270</b>

APPENDIX

[REDACTED]

---

**From:** [REDACTED]  
**Sent:** Monday, June 17, 2013 12:49 PM  
**To:** [REDACTED]  
**Subject:** RE: Humana Revision to Auditors Workpaper C 4 15 - 1C-EE-00-13-006 - 4-25-2013

[REDACTED] I apologize for my lack of response, please proceed with the Final Audit Report using the 6.40% SSSG discount and Humana will concur with this finding.

[REDACTED]

---

**From:** [REDACTED]  
**Sent:** Tuesday, May 21, 2013 10:45 AM  
**To:** [REDACTED]  
**Subject:** RE: Humana Revision to Auditors Workpaper C 4 15 - 1C-EE-00-13-006 - 4-25-2013  
**Importance:** High

[REDACTED]

The spreadsheet you provided needed to be updated. The average members for the [REDACTED] should have been [REDACTED] but the spreadsheet showed [REDACTED]. This changed the discount from [REDACTED] % to [REDACTED] %. Therefore, it should be the [REDACTED] % vs. [REDACTED] %, which is approximately \$ [REDACTED] difference. Please give me a call discuss. Thanks

---

**From:** [REDACTED]  
**Sent:** Friday, May 17, 2013 4:16 PM  
**To:** [REDACTED]  
**Subject:** Humana Revision to Auditors Workpaper C 4 15 - 1C-EE-00-13-006 - 4-25-2013

Use this if you want.

[REDACTED]

The information transmitted is intended only for the person or entity to which it is addressed and may contain CONFIDENTIAL material. If you receive this material/information in error, please contact the sender and delete or destroy the material/information.

---

No virus found in this message.  
Checked by AVG - [www.avg.com](http://www.avg.com)  
Version: 2013.0.3336 / Virus Database: 3162/6332 - Release Date: 05/17/13

The information transmitted is intended only for the person or entity to which it is addressed and may contain CONFIDENTIAL material. If you receive this material/information in error, please contact the sender and delete or destroy the material/information.

---