



**OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDITS**

Final Audit Report

**AUDIT OF THE FEDERAL EMPLOYEES HEALTH
BENEFITS PROGRAM OPERATIONS AT COVENTRY
HEALTH PLAN OF FLORIDA**

Report Number 1C-5E-00-14-070

June 18, 2015

-- 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 (<http://www.opm.gov/our-inspector-general>), 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

Audit of the Federal Employees Health Benefits Program Operations at Coventry Health Plan of Florida

Report No. 1C-5E-00-14-070

June 18, 2015

Why Did We Conduct the Audit?

The primary objectives of the audit were to determine if Coventry Health Plan of Florida (Plan) offered the Federal Employees Health Benefits Program (FEHBP) premium rates that were based on complete, accurate and current pricing 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 contract CS 2715-A, the Office of the Inspector General completed a performance audit of the FEHBP rates offered for contract years 2011 and 2012. Our audit fieldwork was conducted from September 15, 2014 through September 19, 2014 at the Plan's office in Sunrise, Florida. Additional audit work was completed at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

This report questions \$230,777 for inappropriate health benefit charges to the FEHBP in contract year 2011. The questioned amount includes \$215,764 for defective pricing and \$15,013 due the FEHBP for lost investment income, calculated through January 31, 2015. 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 year 2012.

We determined that the FEHBP rates in contract year 2011 were overstated by \$182,475 and \$33,289, for both high and standard options, respectively. For both options, the Plan did not apply the correct trend and administrative fee factors in the FEHBP rate development.

Consistent with the regulations and contract, the FEHBP is due \$15,013 for lost investment income, calculated through January 31, 2015 on the defective pricing finding.

The Plan agrees with the audit findings and has remitted payment in full to the U.S. Office of Personnel Management. No further action is necessary.

ABBREVIATIONS

FEHBAR	Federal Employees Health Benefits Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	Coventry Health Plan of Florida
SSSG	Similarly Sized Subscriber Group
U.S.C.	United States Code

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
ABBREVIATIONS	ii
I. 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 (Coventry’s February 16, 2015 response to the draft report)	
REPORT FRAUD, WASTE, AND MISMANAGEMENT	

I. BACKGROUND

This final report details the findings, conclusions, and recommendations resulting from the audit of the Federal Employees Health Benefits Program (FEHBP) operations at Coventry Health Plan of Florida (Plan).

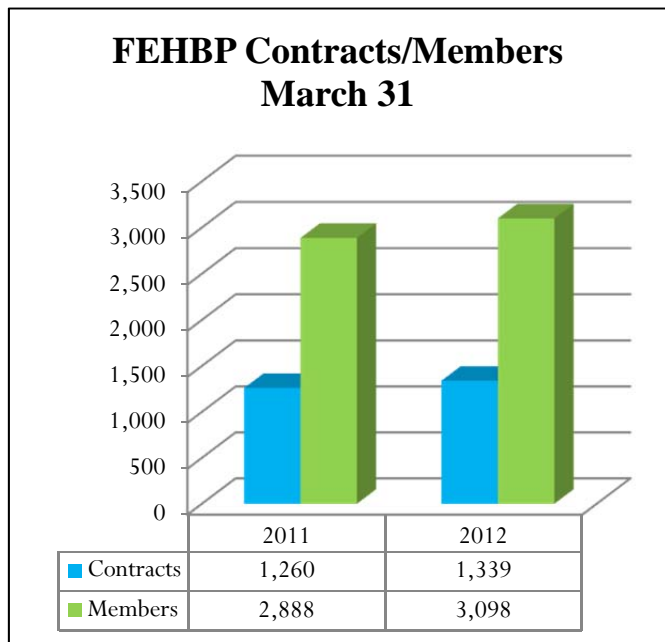
The audit covered contract years 2011 and 2012, and was conducted at the Plan's office in Sunrise, Florida. The audit was conducted pursuant to the provisions of Contract CS 2715-A; 5 United States Code (U.S.C.) Chapter 89; and 5 Code of Federal Regulations Chapter 1, Part 890. The audit was performed 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 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 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.

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 1996 and provides health benefits to FEHBP members throughout South Florida. The Plan's prior audit covered contract years 2006 through 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 comments were considered in preparation of this report and are included, as appropriate, as the Appendix.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

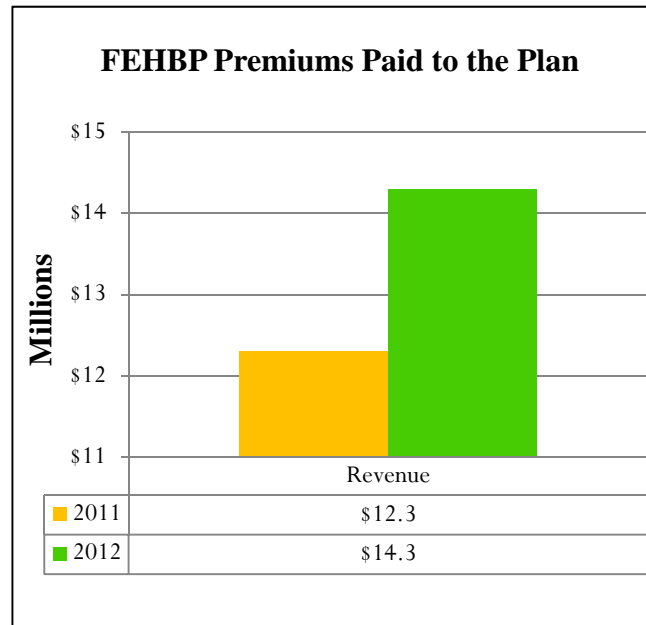
The primary objectives of this performance audit were to determine if the FEHBP premium rates were developed using complete, accurate, and current data, and are equivalent to the Plan's Similarly Sized Subscriber Groups (SSSGs), as provided in Federal Employees Health Benefits Acquisition Regulation (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 2011 and 2012. For these contract years, the FEHBP paid approximately \$26.6 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 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 has in place to ensure that:

- The appropriate SSSGs were selected;

- the rates charged to the FEHBP were developed using complete, accurate and current pricing data, and were 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 from September 15, 2014 through September 19, 2014 at the Plan's office in Sunrise, Florida. Additional audit work was completed at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania.

Methodology

We examined the Plan's Federal rate submissions and related documents as a basis for validating the Plan's 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

Premium Rate Review

1. Defective Pricing

\$215,764

The Certificate of Accurate Pricing the Plan signed for contract year 2011 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 of \$215,764 (see Exhibit A).

The FEHBP is due a rate reduction of \$215,764 for defective pricing in contract year 2011.

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 based on complete, accurate and current pricing data. 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.

2011

The Plan selected [REDACTED] and [REDACTED] as SSSGs for contract year 2012. We disagree with the Plan's selection of [REDACTED] as an SSSG. We selected [REDACTED] instead because it was closest in subscriber size to the FEHBP. The SSSGs and FEHBP were rated using an Adjusted Community Rating methodology. Our analysis shows that neither of the SSSGs received a discount.

We determined that the FEHBP high and standard option rates were overstated by \$182,475 and \$33,289, respectively. For both options, the Plan applied a [REDACTED] percent medical and prescription drug trend factor in its FEHBP rate development. The Plan should have rated the FEHBP using a [REDACTED] percent medical trend factor and a [REDACTED] percent prescription drug trend factor that were used to rate an SSSG. Additionally, the Plan applied a [REDACTED] percent administrative fee factor to the FEHBP, instead of the proper [REDACTED] percent factor.

We recalculated the FEHBP rates by applying the [REDACTED] percent medical trend factor, the [REDACTED] percent prescription drug trend factor, and the [REDACTED] percent administrative fee factor. A

comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP high and standard options were overcharged \$182,475 and \$33,289, respectively (see Exhibit B).

Recommendation 1

We recommend that the Plan return \$215,764 to the FEHBP for defective pricing in contract year 2011. Since we verified that the Plan returned \$215,764 to the FEHBP after receiving the draft report, no further action is required.

2. Lost Investment Income

\$15,013

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 2011. We determined that the FEHBP is due \$15,013 for lost investment income, calculated through January 31, 2015 (see Exhibit C).

FEHBP 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.

The FEHBP is due lost investment income on the defective pricing finding in the amount of \$15,013.

Our calculation of lost investment income is based on the United States Department of the Treasury's semiannual cost of capital rates.

Recommendation 2

We recommend that the Plan return \$15,013 to the FEHBP for lost investment income, calculated through January 31, 2015. Since we verified that the Plan returned \$15,013 to the FEHBP after receiving the draft report, no further action is required.

Plan's Comments (see Appendix):

The Plan agrees with the defective pricing finding and the calculated lost investment income and submitted payment in the full amount of \$230,777 (\$215,764 + \$15,013).

IV. MAJOR CONTRIBUTORS TO THIS REPORT

COMMUNITY-RATED AUDITS GROUP

██████████, Auditor-in-Charge

██████████████████, Auditor

██████████, Chief

██████████, Senior Team Leader

EXHIBIT A

Coventry Health Plan of Florida Summary of Questioned Costs

Defective Pricing Questioned Costs

Contract Year 2011	<u>\$215,764</u>	
Total Defective Pricing Questioned Costs		\$215,764
Lost Investment Income		<u>\$15,013</u>
Total Questioned Costs		<u>\$230,777</u>

EXHIBIT B

Coventry Health Plan of Florida Defective Pricing Questioned Costs

Contract Year 2011 - High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	\$ [REDACTED]	\$ [REDACTED]	
FEHBP Line 5 - Audited Rate	\$ [REDACTED]	\$ [REDACTED]	
Bi-weekly Overcharge	\$ [REDACTED]	\$ [REDACTED]	
To Annualize Overcharge:			
March 31, 2011 enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$ [REDACTED]	\$ [REDACTED]	\$182,475

Contract Year 2011 - Standard Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	\$ [REDACTED]	\$ [REDACTED]	
FEHBP Line 5 - Audited Rate	\$ [REDACTED]	\$ [REDACTED]	
Bi-weekly Overcharge	\$ [REDACTED]	\$ [REDACTED]	
To Annualize Overcharge:			
March 31, 2011 enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$ [REDACTED]	\$ [REDACTED]	<u>\$33,289</u>

Total 2011 Defective Pricing Questioned Costs **\$215,764**

EXHIBIT C

Coventry Health Plan of Florida Lost Investment Income

Year	2011	2012	2013	2014	31-Jan-15	Total
Audit Findings:						
1. Defective Pricing	\$215,764	\$0	\$0	\$0	\$0	\$215,764
Totals (per year):	\$215,764	\$0	\$0	\$0	\$0	\$215,764
Cumulative Totals:	\$215,764	\$215,764	\$215,764	\$215,764	\$215,764	\$215,764
Avg. Interest Rate (per year):	2.563%	1.875%	1.563%	2.063%	2.125%	
Interest on Prior Years Findings:	\$0	\$4,046	\$3,371	\$4,450	\$382	\$12,249
Current Years Interest:	\$2,764	\$0	\$0	\$0	\$0	\$2,764
Total Cumulative Interest Calculated Through January 31, 2015:	\$2,764	\$4,046	\$3,371	\$4,450	\$382	\$15,013

APPENDIX



February 16, 2015

[REDACTED]
Underwriting Head Federal
Plans

[REDACTED]@aetna.com
Tel: [REDACTED]
980 Jolly Road, [REDACTED]
Blue Bell, PA 19422

[REDACTED]
U.S. Office of Personnel Management
Audit Resolution Branch
1900 E Street NW
Room 3400
Washington, DC 20415

RE: Draft Report No. 1C-5E-00-14-070

Dear [REDACTED],

Aetna has reviewed the Draft Report for Coventry Health Plan of Florida (code 5E) and agrees with the Office of Inspector General's findings. The findings pertain to plan year 2011, which include \$215,764 for defective pricing and \$15,013 due the FEHBP for lost investment income, for a total amount of \$230,777.

Enclosed please find a check in the amount of \$230,777.

Please let me know if there are any additional questions or if you need any additional information from Aetna.

Thank you.

Sincerely,

[REDACTED]

cc: [REDACTED] – Chief, Community-Rated Audits Group



Report Fraud, Waste, and Mismanagement

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

By Internet: <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

By Phone: Toll Free Number: (877) 499-7295
Washington Metro Area: (202) 606-2423

By Mail: Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100

-- 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 (<http://www.opm.gov/our-inspector-general>), 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.

Report No. 1C-5E-00-14-070