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**U.S. OFFICE OF PERSONNEL MANAGEMENT  
OFFICE OF THE INSPECTOR GENERAL  
OFFICE OF AUDITS**

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# Final Audit Report

**AUDIT OF THE FEDERAL EMPLOYEES HEALTH BENEFITS  
PROGRAM OPERATIONS AT HUMANA HEALTH PLAN  
OF TEXAS, INC.**

**Report Number 1C-UU-00-14-073**

**July 14, 2015**

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# EXECUTIVE SUMMARY

## *Audit of the Federal Employees Health Benefits Program Operations at Humana Health Plan of Texas, Inc.*

Report No. 1C-UU-00-14-073

July 14, 2015

### **Why Did We Conduct The Audit?**

The primary objectives of the audit were to determine if Humana Health Plan of Texas, Inc. (Plan) offered the Federal Employee 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 (SSSGs), 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 1895, 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 September 8, 2014 through September 19, 2014 at the Plan's office in Louisville, Kentucky.



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

### **What Did We Find?**

This report questions \$427,804 for inappropriate health benefit charges to the FEHBP in contract year 2010. The questioned amount includes \$386,389 for defective pricing and \$41,415 due the FEHBP for lost investment income, calculated through June 30, 2015.

We found that the FEHBP rates were developed 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

<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Program Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>Humana Health Plan of Texas, Inc.</b>
<b>SSSG</b>	<b>Similarly Sized Subscriber Group</b>
<b>U.S.C.</b>	<b>United States Code</b>

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# I. BACKGROUND

This final report details the audit results of the Federal Employees Health Benefits Program (FEHBP) operations at Humana Health Plan of Texas, 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 contract CS 1895; 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 who provide service benefits, indemnity benefits, or comprehensive medical services.

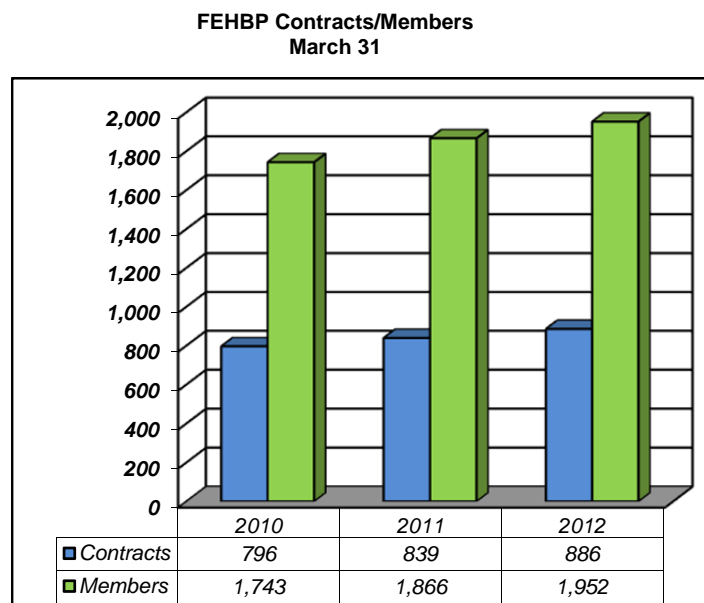
Community-rated carriers participating in the FEHBP are subject to various federal, state and local laws, regulations, and ordinances. While most carriers are subject to state jurisdiction, many are further subject to the Health Maintenance Organization Act of 1973 (Public Law 93-222), as amended (i.e., 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.

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 Austin, Texas metropolitan area. This is our first audit of this plan code.

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 to the report.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

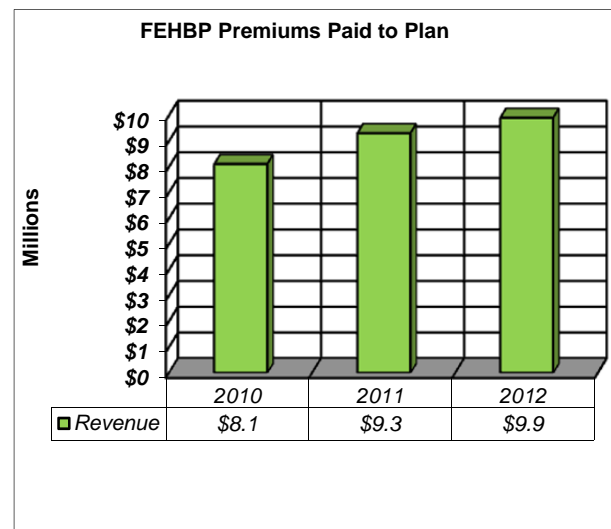
### Objective

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 \$27.3 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 has 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 were 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 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 8, 2014 through September 19, 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

**\$386,389**

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 of \$386,389 (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 \$386,389 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 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. The Plan had originally applied a [REDACTED] percent discount to the FEHBP rates 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 \$386,389 in contract year 2010; \$310,672 for the High Option and \$75,717 for the Standard Option (see Exhibit B).

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

The Plan agrees with the audit findings.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$386,389 to the FEHBP for defective pricing in contract year 2010.

**2. Lost Investment Income**

**\$41,415**

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 finding in contract year 2010. We determined the FEHBP is due \$41,415 for lost investment income, calculated through June 30, 2015 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning July 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 \$41,415.**

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 agrees lost investment income should be calculated.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$41,415 to the FEHBP for lost investment income, calculated through June 30, 2015. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning July 1, 2015, 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

██████████, Lead Auditor

██████████, Lead Auditor

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██████████, Senior Team Leader

██████████, Chief

# EXHIBIT A

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

### Defective Pricing Questioned Costs

Contract Year 2010	<u>\$386,389</u>
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Total Defective Pricing Questioned Costs	\$386,389
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Lost Investment Income	<u>\$41,415</u>
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Total Questioned Costs	<u>\$427,804</u>
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# EXHIBIT B

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

### Contract Year 2010-High Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Bi-weekly Overcharge	████████	████████	
To Annualize Overcharge:			
March 31, 2010 enrollment	████████	████████	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$ ██████████	\$ ██████████	<u>\$310,672</u>

### Contract Year 2010- Standard Option

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	████████	████████	
FEHBP Line 5 - Audited Rate	████████	████████	
Bi-weekly Overcharge	████████	████████	
To Annualize Overcharge:			
March 31, 2010 enrollment	████████	████████	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	\$ ██████████	\$ ██████████	<u>\$75,717</u>

**Total Defective Pricing Questioned Costs** \$386,389

# EXHIBIT C

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

Year	2010	2011	2012	2013	2014	30 Jun 15	Total
<b>Audit Findings:</b>							
1. Defective Pricing	\$386,389	\$0	\$0	\$0	\$0	\$0	\$386,389
Totals (per year):	\$386,389	\$0	\$0	\$0	\$0	\$0	\$386,389
Cumulative Totals:	\$386,389	\$386,389	\$386,389	\$386,389	\$386,389	\$386,389	\$386,389
Avg. Interest Rate (per year):	3.1875%	2.5625%	1.8750%	1.5625%	2.0625%	2.1250%	-
Interest on Prior Years Findings:	\$0	\$9,901	\$7,245	\$6,037	\$7,969	\$4,105	\$35,257
Current Years Interest:	\$6,158	\$0	\$0	\$0	\$0	\$0	\$6,158
Total Cumulative Interest Calculated Through June 30, 2015:	\$6,158	\$9,901	\$7,245	\$6,037	\$7,969	\$4,105	<b>\$41,415</b>

# APPENDIX

March 20, 2015

## **HUMANA RESPONSE TO DRAFT AUDIT REPORT NO. 1C-UU-00-14-073**

This document is submitted by Humana Health Plan of Texas, Inc. ("Humana") and responds to the Draft Audit Report dated January 21, 2015 issued by the Office of Inspector General of the Office of Personnel Management ("OPM") regarding the Humana FEHBP Contract Number 1895 – Plan Code UU for contract years 2010-2012.

The Audit Report questions inappropriate charges for contract year 2010 totaling \$426,699 consisting of defective pricing charges of \$386,389 and \$37,310 due the FEHBP for lost investment income through 12/31/2014.

Humana concurs with the existence of defective pricing and agrees to remit payment including lost investment income with the subsequent release of the Final Audit report.



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