



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 Coventry Health Care of Florida**

**Report No. 1C-5E-00-11-045**

**Date: March 28, 2012**

--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.



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  
Coventry Health Care of Florida  
Contract Number CS 2715 - Plan Code 5E  
Sunrise, Florida**

Report No. 1C-5E-00-11-045

Date: March 28, 2012

A handwritten signature in black ink, appearing to read "Michael R. Esser", written over a horizontal line.

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

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## EXECUTIVE SUMMARY

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**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Coventry Health Care of Florida  
Contract Number CS 2715 - Plan Code 5E  
Sunrise, Florida**

**Report No. 1C-5E-00-11-045**

**Date: March 28, 2012**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Coventry Health Care of Florida (Plan). The audit covered contract years 2006 through 2010 and was conducted at the Plan's office in Sunrise, Florida.

This report questions \$1,139,191 for inappropriate health benefit charges to the FEHBP in contract years 2007 and 2010. The questioned amount includes \$1,056,129 for defective pricing and \$83,062 due the FEHBP for lost investment income, calculated through March 31, 2012. We found that the FEHBP rates were developed in accordance with the Office of Personnel Management's rules and regulations in contract years 2006, 2008, and 2009.

For contract years 2007 and 2010, we determined that the FEHBP's rates were overstated by \$233,189 and \$822,940, respectively. More specifically, the Plan did not apply the largest similarly sized subscriber group discount to the FEHBP rates in these years.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$83,062 for lost investment income, calculated through March 31, 2012, on the defective pricing findings. In addition, we recommend that the contracting officer recover lost investment income starting April 1, 2012 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 Coventry Health Care of Florida (Plan) in Sunrise, Florida. The audit covered contract years 2006 through 2010. The audit was conducted pursuant to the provisions of Contract CS 2715; 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.

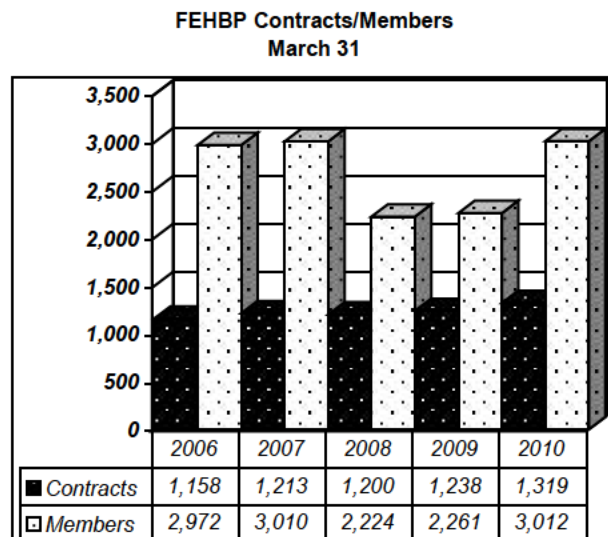
## **Background**

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 1996 and provides health benefits to FEHBP members throughout South Florida. The last audit conducted by our office was a full scope audit and covered contract years 2000 through 2003, and 2005. All matters related to 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 the preparation of this report and are included, as appropriate, as the Appendix.

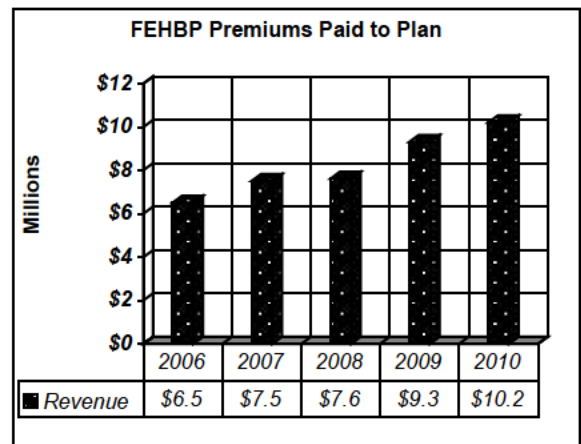
## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **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 2006 through 2010. For these contract years, the FEHBP paid approximately \$41.1 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 and enrollment 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 Sunrise, Florida during May 2011. Additional audit work was completed at our offices in Cranberry Township, Pennsylvania and 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 (FEHBAR), 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**

**\$1,056,129**

The Certificates of Accurate Pricing the Plan signed for contract years 2007 and 2010 were defective. In accordance with federal regulations, the FEHBP is therefore due a rate reduction for those years. Application of the defective pricing remedy shows that the FEHBP is entitled to a premium adjustment totaling \$1,056,129 (see Exhibit A). Based on our audit, we accepted the Plan's rating of the FEHBP in contract years 2006, 2008, and 2009. We do not have any questioned costs for those years.

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. FEHBP 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 (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.

##### **2007**

The Plan selected [REDACTED] as the SSSGs. We agree with these selections. We found, however, that the Plan was not consistent with its calculation of the capitated fixed costs for both the FEHBP and the SSSGs. We used the same calculation for the FEHBP as the Plan used for the SSSGs. We then applied the highest SSSG discount of [REDACTED] percent, granted to [REDACTED], to the FEHBP's audited rates. A comparison of our audited rates to the Plan's proposed rates shows that the FEHBP was overcharged by \$233,189 in contract year 2007 (see Exhibit B).

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

The Plan agrees with our finding.

##### **2010**

In response to our draft report, the Plan provided its 2010 SSSG selection and corresponding rate development documentation. The Plan selected [REDACTED] as the SSSGs in contract year 2010. We agree with these selections. Our review of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and the [REDACTED] received an [REDACTED] percent discount. The Plan applied a [REDACTED] percent discount to the FEHBP's line 1 rates. As a result, we removed the [REDACTED] percent discount and applied the highest discount, the [REDACTED] percent given to [REDACTED], to our audited FEHBP rates. A comparison of our audited rates to the Plan's reconciled rates

shows that the FEHBP was overcharged \$822,940 for both the high and standard options in contract year 2010 (see Exhibit B).

**Plan's Comments:**

The Plan did not have an opportunity to comment on the 2010 finding because the SSSG information was not received until after our draft report was issued.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$1,056,129 to the FEHBP for defective pricing in contract years 2007 and 2010.

**2. Lost Investment Income **\$83,062****

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 years 2007 and 2010. We determined that the FEHBP is due \$83,062 for lost investment income, calculated through March 31, 2012 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning April 1, 2012, 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.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$83,062 to the FEHBP for lost investment income calculated through March 31, 2012. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning April 1, 2012, until all defective pricing amounts have been returned to the FEHBP.

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

"In calculating lost investment income, we used the interest rates provided in Exhibit C of the Draft Report. In contrast with the methodology used in the Draft report which assumes the

amount overcharged to the FEHBP was at the same point in time, the methodology we applied calculates lost investment income based on the monthly premium payment schedule. In other words, the FEHBP loss of investment income due to any overcharging should be determined on timing of those monthly payments.”

**OIG’s Response to the Plan’s Comments:**

Our calculation of lost investment income accounted for the time value associated with gradual premium payments made throughout the contract year.

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

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

██████████, Auditor-In-Charge

██████████, Lead Auditor

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██████████., Chief

██████████, Senior Team Leader

**Exhibit A**

**COVENTRY HEALTH CARE OF FLORIDA  
Summary of Questioned Costs**

**Defective Pricing Questioned Costs:**

Contract Year 2007	\$233,189
Contract Year 2010	\$822,940
<b>Total Defective Pricing</b>	<b>\$1,056,129</b>

**Lost Investment Income** **\$83,062**

**Total Questioned Cost** **\$1,139,191**

**COVENTRY HEALTH CARE OF FLORIDA  
Defective Pricing Questioned Costs**

**2007 Contract Year**

	<u>Single</u>	<u>Family</u>	
Plan's Proposed Rates	[REDACTED]	[REDACTED]	
Audited Line 5 Rates	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
March 31, 2007 Enrollment x 26 pay period	[REDACTED]	[REDACTED]	
Amount Due FEHBP in 2007			<b>\$233,189</b>

**2010 Contract Year - High Option**

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates	[REDACTED]	[REDACTED]	
Audited Line 5 Rates	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
March 31, 2010 Enrollment x 26 pay period	486 \$ [REDACTED]	[REDACTED]	
Amount Due FEHBP in 2010 - High Option			<b>\$755,127</b>

**2010 Contract Year - Standard Option**

	<u>Single</u>	<u>Family</u>	
Plan's Reconciled Rates	[REDACTED]	[REDACTED]	
Audited Line 5 Rates	[REDACTED]	[REDACTED]	
Overcharge	[REDACTED]	[REDACTED]	
March 31, 2010 Enrollment x 26 pay period	[REDACTED]	[REDACTED]	
Amount Due FEHBP in 2010 - Standard Option			<b><u>\$67,813</u></b>

Amount Due FEHBP in 2010 - Total **\$822,940**

**Total Defective Pricing Questioned Cost **\$1,056,129****

**COVENTRY HEALTH CARE OF FLORIDA  
Lost Investment Income**

<b>Year</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>31-Mar-2012</b>	<b>Total</b>
<b>Audit Findings:</b>							
Defective Pricing	\$233,189	\$0	\$0	\$822,940	\$0	\$0	\$1,056,129
<hr/>							
Totals (per year):	\$233,189	\$0	\$0	\$822,940	\$0	\$0	\$1,056,129
Cumulative Totals:	\$233,189	\$233,189	\$233,189	\$1,056,129	\$1,056,129	\$1,056,129	\$1,056,129
Average Annual Interest Rate:	5.5000%	4.9375%	5.2500%	3.1875%	2.5625%	2.0000%	
Interest on Prior Years Findings:	\$0	\$11,514	\$12,242	\$7,433	\$27,063	\$5,281	\$63,533
Current Years Interest:	\$6,413	\$0	\$0	\$13,116	\$0	\$0	\$19,529
Total Cumulative Interest Through March 31, 2012	\$6,413	\$11,514	\$12,242	\$20,549	\$27,063	\$5,281	<b>\$83,062</b>





**2007**

The findings for 2007 are as follows:

1. Review of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount.
2. Plan was not consistent with its selection of the capitated fixed costs for the FEHBP and SSSG's

**Response:**

*Finding 1: Review of the rates charged to the SSSGs shows that [REDACTED] received a [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount.*

The Plan agrees with the finding.

*Finding 2: Plan was not consistent with its selection of the capitated fixed costs for the FEHBP and SSSG's*

The Plan agrees with the finding.

**Summary**

Based on the Plan's responses, the Plan agrees that the FEHBP overcharged \$233,189 in 2007.



## APPENDIX

### Lost Investment Income Final Summary

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In calculating lost investment income, we used the interest rates provided in Exhibit C of the Draft Report. In contrast with the methodology used in the Draft Report which assumes the amount overcharged to the FEHBP was at the same point in time, the methodology we applied calculates lost investment income based on the monthly premium payment schedule. In other words, the FEHBP loss of investment income due to any overcharging should be determined on timing of those monthly payments. Please see Exhibit N (*FEHBP Interest Calculation 12-2011.xls*) for the calculation detail.