



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, Inc.**

**Report No. 1C-IG-00-12-049**

**Date: February 21, 2013**

**-- CAUTION --**

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## AUDIT REPORT

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Coventry Health Care, Inc.  
Contract Number CS 2892 - Plan Code IG  
Columbia, Maryland**

Report No. 1C-IG-00-12-049

Date: 02/21/13



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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, Inc.  
Contract Number CS 2892 - Plan Code IG  
Columbia, Maryland**

**Report No. 1C-IG-00-12-049**

**Date: 02/21/13**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Coventry Health Care, Inc. (Plan). The audit covered contract years 2007 through 2011, and was conducted at the Plan's office in Columbia, Maryland.

This report questions \$630,216 for inappropriate health benefit charges to the FEHBP in 2007, 2008, and 2009, including \$76,606 for lost investment income, calculated through January 31, 2013. We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and the Office of Personnel Management rules and regulations for contract years 2010 and 2011.

For contract year 2007, we determined that the FEHBP's rates were overstated by \$73,406 due to defective pricing. More specifically, the Plan did not apply the correct SSSG discount to the FEHBP's rates, incorrectly applied a lower industry factor to an SSSG than the FEHBP, and incorrectly applied a state-mandated loading to the FEHBP.

For contract year 2008, we determined that the FEHBP's rates were overstated by \$228,870 due to defective pricing. More specifically, the Plan did not apply the correct SSSG discount to the FEHBP's rates and incorrectly applied a prescription benefit adjustment to the FEHBP.

For contract year 2009, we determined that the FEHBP's rates were overstated by \$251,334 due to defective pricing. More specifically, the Plan did not apply the correct SSSG discount to the FEHBP's rates and incorrectly applied a prescription benefit adjustment to the FEHBP.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$76,606 for lost investment income, calculated through January 31, 2013, on the defective pricing findings. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning February 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

Also for contract years 2007, 2008 and 2009, the Plan did not maintain its FEHBP reconciliation documents as required by the OPM contract and rating instructions.

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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, Inc. (Plan). The audit covered contract years 2007 through 2011. The audit was conducted pursuant to the provisions of Contract CS 2892; 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.

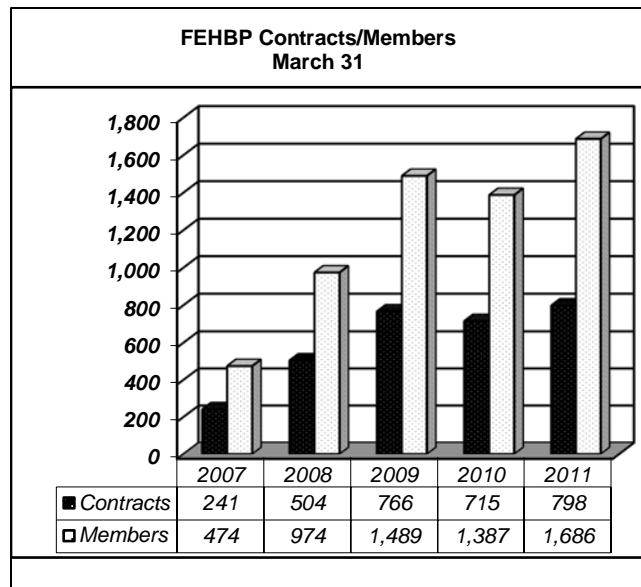
## Background

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 2006 and provides health benefits to FEHBP members in the state of Maryland. This is the first audit of the Plan conducted by our office.

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.

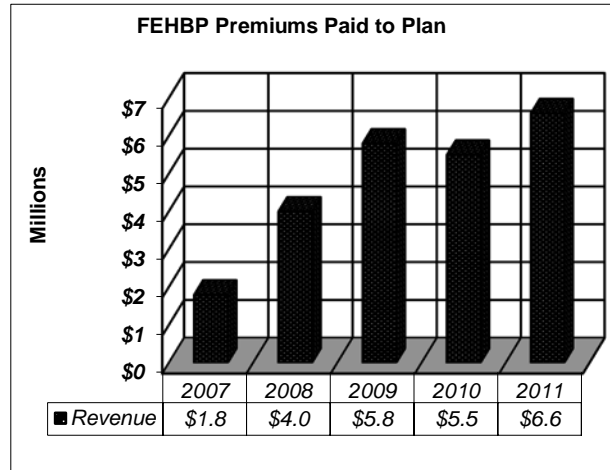
## **II. OBJECTIVES, SCOPE, AND METHODOLOGY**

### **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 2007 through 2011. For these contract years, the FEHBP paid approximately \$23.7 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 conducted during March 2012 in Columbia, Maryland, and additional audit work was completed at our offices located 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 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**

**\$553,610**

The Certificates of Accurate Pricing Coventry Health Care, Inc. (Plan) submitted to the Office of Personnel Management (OPM) for contract years 2007, 2008, and 2009 were defective. In accordance with federal regulations, the Federal Employees Health Benefits Program (FEHBP) is therefore due a rate reduction for these years. Application of the defective pricing remedy shows that the FEHBP is entitled to premium adjustments totaling \$553,610 (see Exhibit A). We found that the FEHBP rates were developed in accordance with applicable laws, regulations, and OPM rules and regulations for contract years 2010 and 2011.

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 a similarly sized subscriber group (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.

In contract year 2007, the FEHBP was rated using a community rating by class (CRC) methodology and the SSSGs were rated with a blend of adjusted community rating (ACR) and CRC. For contract years 2008 through 2011, if a group had less than 12,000 member months, a blend of CRC and ACR was used. If the group had over 12,000 member months during their experience period then the Plan used an ACR methodology to develop the rates for the group. The ACR methodology is based on group specific claims experience, which is adjusted by factors such as trends, pooling charges, retention, and margin factors, to determine the required per-member-per-month (PMPM) revenue needed for the renewal period. This required PMPM is then converted to a set of tiered rates (i.e., single, family) using group specific family size and contract mix.

#### **2007**

We selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2007. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received an [REDACTED] percent discount and [REDACTED] received a [REDACTED] percent discount. The Plan also applied a [REDACTED] industry factor for one of the SSSGs, [REDACTED]. According to OPM's rating instructions, the FEHBP must receive the lowest industry factor given to an SSSG, but it cannot be higher than 1.00. Therefore, we applied [REDACTED] discount factor of [REDACTED] (1.0 – [REDACTED] percent x [REDACTED]) to the FEHBP's audited line 5 rates. Our analysis shows that the Plan applied a discount factor of [REDACTED] (or an [REDACTED] discount) to the FEHBP's rates.

Lastly, the Plan applied a [REDACTED] compliance adjustment factor to the FEHBP rates, which is a state-mandated charge for small groups. It was determined that this factor is not applicable to the FEHBP because it is state mandated. Per OPM's rating instructions, the imposition of taxes, fees, or other monetary payment on FEHBP premiums by any State are prohibited. Therefore, the compliance adjustment was removed from our audited FEHBP rates.

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$73,406 (high and standard options) in 2007 (see Exhibit B).

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

The Plan agrees that the SSSG, [REDACTED] received an [REDACTED] percent discount. However, the Plan feels the [REDACTED] percent discount includes the discount related to the [REDACTED] industry factor. The Plan agrees with the exclusion of the compliance adjustment from the audited FEHBP rates.

### **OIG's Response to Plan's Comments**

Our [REDACTED] percent [REDACTED] discount was calculated using a [REDACTED] industry factor. The [REDACTED] percent discount would only include the impact of a [REDACTED] industry factor if the factor was changed to 1.00 in our audited rates. However, that was not the case since the audited rates for [REDACTED] included an industry factor of [REDACTED]. The 2007 OPM rate instructions state that the total discount is calculated by multiplying the other discount by the industry factor. In the case with [REDACTED] a discount of [REDACTED] percent was calculated and an industry factor of [REDACTED] was used. The total discount factor for [REDACTED] equaled [REDACTED], which was the largest discount of the two SSSGs. Since the FEHBP is entitled to the largest discount given to either of the two SSSGs, we applied the discount factor of [REDACTED] to the FEHBP's audited line 5 rates.

### **2008**

We selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2008. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received an [REDACTED] percent discount. [REDACTED] did not receive a discount. Our analysis shows that the FEHBP received a total discount of [REDACTED] percent (high and standard options). Per OPM's rating instructions, the FEHBP should be given the largest discount granted to an SSSG. Therefore, we applied the [REDACTED] percent [REDACTED] discount to the FEHBP's audited line 5 rates.

The Plan also incorrectly changed the FEHBP's prescription benefit relativity factor. According to the Plan's 2008 FEHBP benefit brochure, there were no changes in the prescription benefit from 2007 to 2008. Therefore, we used the same prescription benefit relativity factor as was used in the prior year.

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$228,870 (high and standard options) in 2008 (see Exhibit B).

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

The Plan agrees with the [REDACTED] percent discount given to [REDACTED]. However, the Plan disagrees with the finding related to the incorrect prescription benefit relativity factor for the FEHBP. The Plan referenced Section 5 of the 2008 FEHBP benefit brochure which explains the prescription benefits for the FEHBP. Also, the Plan states that the prescription benefit relativity factor does not measure a change from prior year to the prospective year; rather it measures the change in utilization from a base benefit to the described benefit.

**OIG's Response to Plan's Comments**

In 2007, the FEHBP prescription benefit was a "10/20/45 unlimited", which was the same as the Plan's base prescription benefit. Prescription benefits that differ from the base prescription benefit have a relativity factor. If a group's prescription benefit is better than the base prescription benefit, the relativity factor is greater than 1.00. Conversely, if a group's prescription benefit is worse than the base prescription benefit, the relativity factor is less than 1.00. Since the FEHBP's prescription benefit was the same as the Plan's base prescription benefit, the relativity factor should be 1.00.

For 2008, the Plan changed the FEHBP prescription benefit in their rate model to "10/20/45 No Deductible – Prior Authorization Lite", which has a relativity factor of [REDACTED]. The 2007 and 2008 FEHBP benefit brochures have exactly the same language explaining the prescription benefits. The Plan's base prescription benefit remained a "10/20/45 unlimited" in 2008. The relativity factor should be 1.00, since the FEHBP benefit brochures do not indicate any changes, nor did the Plan discuss this benefit change with OPM.

**2009**

We selected [REDACTED] and [REDACTED] as the SSSGs for contract year 2009. Our analysis of the rates charged to the SSSGs shows that [REDACTED] received an [REDACTED] percent discount. [REDACTED] received a [REDACTED] percent discount. Our analysis shows that the FEHBP received a total discount of [REDACTED] percent (high and standard options). Per OPM's rating instructions, the FEHBP should be given the largest discount granted to an SSSG. Therefore, we applied the [REDACTED] percent [REDACTED] discount to the FEHBP's audited line 5 rates.

The Plan also incorrectly changed the FEHBP's prescription benefit relativity factor. According to the Plan's 2007, 2008, and 2009 FEHBP benefit brochures, there were no changes in the prescription benefits from 2007 to 2009. Therefore, we used the same 1.00 prescription benefit relativity factor as we used in 2007 and 2008.

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$251,334 (high and standard options) in 2009 (see Exhibit B).

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

The Plan believes that [REDACTED] meets all of the criteria set forth in the OPM rate instructions for special adjustments to SSSG rates based on estimated new business. The criteria from the rate instructions and the Plan's validation for each criterion are as follows:

- 1) The Carrier can give a reasonable justification

The SSSG, [REDACTED] is a slice account for the Plan. The broker for the SSSG notified the Plan that another carrier was presenting a rate which would potentially drive the healthier members away from the Plan. Therefore, the Plan would be in jeopardy of underfunding for the prospective year.

- 2) The method is not intended to give a discount

The Plan, desiring to take into account any change in experience basis given the notification of potential adverse selection, and wishing to avoid the loss of a large customer, ran an additional quote capture which included an experience period one month later than the original quote for the SSSG [REDACTED]. The Plan feels this cannot be considered a discount but instead is a revised basis which accurately projects the rates based on changes to the original assumptions of risk to the Plan.

- 3) It is the Carrier's policy to make such adjustments

The Plan regularly refreshes experience period bases for quotes that present changes to the original assumptions of risk to the Plan, to the degree it is an automated, documented process. The Plan allows an underwriter to also make changes to demographic and other assumptions. In the case with [REDACTED] the Plan adjusted the demographic factor from [REDACTED] to [REDACTED].

The Plan feels the difference in the FEHBP audited rates and its billed rates should not be considered a discount of [REDACTED] percent.

The Plan also disagrees with the finding that it incorrectly changed the FEHBP's prescription benefit relativity factor. This factor adjusts the experience for benefit changes which may have occurred from the experience period to the current period, or when a significant shift of enrollment from one plan to another occurs (i.e., current census compared to the experience period census). The Plan believes they correctly applied the factor of [REDACTED] in this manner, and it has requested that the original value of [REDACTED] be used to calculate the audited FEHBP line 5 rates.

### **OIG's Response to Plan's Comments**

The OPM rate instructions allow special adjustments to SSSG rates based on estimated new business in rare cases. The scenario described by the Plan is not related to new business and

it does not meet the criteria set forth in the OPM rate instructions for special adjustments to SSSG rates. The SSSG, [REDACTED] is a slice account for the Plan and they clearly gave them a discount in order to avoid losing membership. The broker for [REDACTED] notified the Plan that the other carrier came in with a much lower rate and that the Plan was at risk of significant membership loss or even losing the account. In order to avoid losing membership, the Plan gave [REDACTED] a discount of [REDACTED] percent.

The first criterion in the OPM rate instructions is not satisfied because the potential of losing business due to the rates being too high is not an OPM-accepted reason for a special adjustment to the SSSG rates.

The second criterion in the OPM rate instructions requires a special adjustment not be intended as a discount. After reviewing the correspondence from the broker and bills for [REDACTED] it is apparent that the Plan manipulated the experience in order to give the group a discount. In addition, no support was provided for using an experience period one month later than the original experience period. Also, the Plan's data for [REDACTED] calls for a demographic factor of approximately [REDACTED] which accounts for the change in demographics from the experience period to the current period. The broker suggested the demographic factor was not accurate so the Plan changed it to [REDACTED]. In the Plan's response to the draft report, they provided data showing the demographic factor was the same for November 2008 and November 2009, but the demographic factor used in the November 2008 renewal is adjusted for the change in demographics from the experience period to the current period. The demographic comparison provided by the Plan was not appropriate.

The third criterion in the OPM rate instructions states that it must be the carrier's policy to make such adjustments. The changes made by the Plan must be documented and supported. The Plan did not support that the special adjustments were part of their policies. Also, the broker's email shows the intent was to give the group a rate lower than the Plan's rating methodology requires. The adjustments made to the November 2008 rates for [REDACTED] must be treated as a discount and applied to the FEHBP's Line 5 rates.

The FEHBP was rated with [REDACTED] percent creditability in 2009. The rates were developed with a blend of CRC and ACR. Therefore, there are two separate prescription benefit factors. However, the plan incorrectly used [REDACTED] for the CRC prescription benefit factor. As previously discussed, the 2007 FEHBP prescription benefit was a "10/20/45 unlimited", which was identical to the Plan's base prescription benefit. Again, if a group's prescription benefit is better than the base prescription benefit, the relativity factor is greater than 1.00. Conversely, if a group's prescription benefit is worse than the base prescription, the relativity factor is less than 1.00. Since the FEHBP's prescription benefit was the same as the Plan's base prescription benefit, the relativity factor should be 1.00.

For 2009, the Plan changed the FEHBP prescription benefit in their model to "10/20/45 No Deductible – Prior Authorization Lite", which has a relativity factor of [REDACTED]. The FEHBP benefit brochures for 2007, 2008, and 2009 have exactly the same prescription benefit. Also,

the Plan's base prescription benefit remained the "10/20/45 unlimited" for 2008 and 2009. The prescription benefit factor should be 1.00 since the FEHBP benefit brochures do not indicate any changes, nor did the Plan discuss this benefit change with OPM.

The prescription benefit adjustment factor in the ACR model adjusts the experience for the benefit changes that have occurred from the experience period to the current period. In the Plan's response, they stated that the benefit adjustment factor can also be adjusted when a significant shift of enrollment from one plan to another occurs (i.e., current census compared to the experience period census). The prescription benefit adjustment factor should only be used to account for benefit changes. Furthermore, the Plan did not document a significant shift in enrollment as discussed in their response. According to the FEHBP benefit brochures, there were no prescription benefit changes from 2007 to 2009. In addition, the Plan's underwriting guidelines do not mention the benefit adjustment factor is used for significant enrollment changes. Therefore, we used a prescription benefit adjustment factor of 1.00 in the 2009 FEHBP rates, instead of the 1.0546 prescription benefit adjustment factor that the Plan used in their ACR model.

### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$553,610 to the FEHBP for defective pricing in contract years 2007 through 2009.

## **2. Lost Investment Income \$76,606**

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 2007 through 2009. We determined that the FEHBP is due \$76,606 for lost investment income, calculated through January 31, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning February 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

Federal Employees Health Benefits Acquisition Regulation 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 did not respond to this finding.

## **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$76,606 to the FEHBP for lost investment income for the period January 1, 2007, through January 31, 2013. In addition, we recommend that the contracting officer recover lost investment income on amounts due for the period beginning February 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

### **3. Record Retention**

The Plan did not maintain its FEHBP rate reconciliation documents as support for its 2007, 2008, and 2009 rates. Further, the Plan did not select SSSGs in these years. Although we ultimately completed sufficient, alternative testing to determine the adequacy of the FEHBP's rates, the OPM contract and rating instructions require small carriers to keep its rate reconciliations and SSSG data on file and make them available during OPM audits. In these years, the records were not available due to personnel changes within the Plan. Poor record retention practices increase the risk of FEHBP overcharges.

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

The Plan did not respond to this finding.

## **Recommendation 3**

We recommend that the contracting officer require the Plan to establish written record retention policies and procedures to ensure compliance with the FEHBP contract and to provide copies of these policies and procedures to OPM within 90 days of this report.



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

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

██████████, Auditor-in-Charge

██████████, Auditor

██████████, Auditor

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██████████ Chief

██████████, Senior Team Leader

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**Coventry Health Care, Inc.  
Summary of Questioned Costs**

Defective Pricing Questioned Costs

Contract Year 2007	\$73,406
Contract Year 2008	\$228,870
Contract Year 2009	<u>\$251,334</u>

Total Defective Pricing Questioned Costs **\$553,610**

Lost Investment Income: **\$76,606**

Total Questioned Costs **\$630,216**

**Coventry Health Care, Inc.  
Defective Pricing Questioned Costs**

**Exhibit B  
Page 1 of 3**

**2007**

**High Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Difference	■	■	
To Annualize:			
March 31, 2007 Enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>\$54,612</b>

**Standard Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Difference	■	■	
To Annualize:			
March 31, 2007 Enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>\$18,794</b>

**Total 2007 Questioned Costs**

**\$73,406**

**Coventry Health Care, Inc.  
Defective Pricing Questioned Costs**

**Exhibit B  
Page 2 of 3**

**2008**

**High Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Difference	■	■	
To Annualize:			
March 31, 2008 Enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>\$260,335</b>

**Standard Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Difference	■	■	
To Annualize:			
March 31, 2008 Enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>(\$31,465)</b>

**Total 2008 Questioned Costs**

**\$228,870**

**Coventry Health Care, Inc.  
Defective Pricing Questioned Costs**

**Exhibit B  
Page 3 of 3**

**2009**

**High Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Difference	■	■	
To Annualize:			
March 31, 2009 Enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>\$192,044</b>

**Standard Option**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	■	■	
FEHBP Line 5 - Audited Rate	■	■	
Biweekly Difference	■	■	
To Annualize:			
March 31, 2009 Enrollment	■	■	
Pay Periods	<u>26</u>	<u>26</u>	
	■	■	
Subtotal			<b>\$59,290</b>

**Total 2009 Questioned Costs** **\$251,334**

**Total Defective Pricing Questioned Costs:** **\$553,610**

**EXHIBIT C**

**Coventry Health Care, Inc.  
Lost Investment Income**

<b>Year</b>	2007	2008	2009	2010	2011	2012	31-Jan-2013	Total
<b>Audit Findings:</b>								
1. Defective Pricing	\$73,406	\$228,870	\$251,334	\$0	\$0	\$0	\$0	\$553,610
Totals (per year):	\$73,406	\$228,870	\$251,334	\$0	\$0	\$0	\$0	\$553,610
Cumulative Totals:	\$73,406	\$302,276	\$553,610	\$553,610	\$553,610	\$553,610	\$553,610	\$553,610
Avg. Interest Rate (per year):	5.500%	4.938%	5.250%	3.188%	2.563%	1.875%	0.1146%	
Interest on Prior Years Findings:	\$0	\$3,624	\$15,869	\$17,646	\$14,186	\$10,380	\$634	\$62,339
Current Years Interest:	\$2,019	\$5,650	\$6,598	\$0	\$0	\$0	\$0	\$14,267
Total Cumulative Interest Calculated Through January 31, 2013:	\$2,019	\$9,274	\$22,467	\$17,646	\$14,186	\$10,380	\$634	<b>\$76,606</b>

Appendix

December 4, 2012

██████████  
Chief, Community-Rated Audits Group  
U.S. Office of Personnel Management  
Office of the Inspector General  
800 Cranberry Woods Drive, Suite 130  
Cranberry Township, PA 16066

SUBJECT: PLAN RESPONSE TO REPORT 1C-IG-00-12-049

Dear ██████████

I am pleased to respond to your draft report of the OIG’s findings on behalf of Coventry Health Care, Inc., Columbia MD.

**Contract Year 2007**

The Plan respectfully disagrees with the overall findings of the OIG for Contract Year 2007 in regard to the application of the industry factor applying as a separate finding to be applied to the audited line 5 rates:

**“Lastly, the Plan applied a ██████ industry factor for one of the SSSGs, Shore BancShares. According to OPM’s rating instructions, the FEHBP must receive the lowest industry factor given an SSSG, but it cannot be higher than a 1.00. Therefore, we changed the FEHBP’s industry factor to ██████ in our audited rates.”**

Within the contract year 2007 reconciliation instructions (EXHIBIT 1.pdf, Letter, 2007-03; Date of Release, 02/21/2007, Attachment, OPM Reconciliation Guidelines – 2007), page 20 gives the following example of how the industry factor is to be considered. Using this example, it is inarguable that *the application of an industry factor is considered part of the overall discount given to a group.*

**Pp 20.**

Reconciliation Instructions	SSSG #1	SSSG #2
<b>EXAMPLE of TCR / CRC COMPARISON SHEET</b>		
Federal Group		
1. Group Renewal Date	1-1-07	2-1-07
2. Rating Method (a)	CRC	CRC
3. Capitation (b)	\$100.00	\$101.00
4. Age/Sex Factor	.92	1.04
5. Industry Factor (c)	.95	.98

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6. Other Discounts	.98	1.00	.95
7. Total Discount	.95 x .98	.95 x 1.00	.95 x .98
(d)			
8. 1st Level Step-Up Factor (e)	1.30	1.12	1.22
9. <b>Self Rate</b> (f)	\$111.35	\$102.19	\$119.31
10. Family/Self Ratio	2.71	2.80	2.55
11. <b>Family Rate</b>	\$301.76	\$286.13	\$304.24

(a) If all three methods are not the same, explain why.

(b) **IMPORTANT! If these capitation rates are not the same, explain why in QS15.**

(c) The Federal group receives the lowest industry factor < 1.0 given to an SSSG.

(d) **IMPORTANT:** The Federal group receives at least the lowest total discount given to an SSSG. In this case, one SSSG received a total discount of (.95 x 1.00) and the other received a total discount of (.95 x .98) Therefore the Federal group would get a discount of (.95 x .98) , **the lower of the two**. Note: The Federal group can receive the largest discount.

(e) Show How Factors Are Derived.

(f)  $\$100 \times .92 \times (.95 \times .98) \times 1.3 = \$111.35$

Referring to this example, the total discount on a group is calculated by the multiplication of the industry factor (line 5 in the example) and the other discounts applied (line 6 in the example) for the SSSGs, and the discount given to the Federal group is the lower of the two discount factors.

Referring to the 2007 Contract year, the Plan agrees that the SSSG [REDACTED] received a [REDACTED] % discount. Referring again to the example *and* to the 2007 contract year, the Plan further agrees that the SSSG [REDACTED] received a [REDACTED] % discount, comprised of the total value of the industry factor discount given the group as [REDACTED] %, and the other discount given the group as [REDACTED] %. (EXHIBIT 2.xls, [REDACTED] SIC factor discount calculation)

The Plan does not disagree with the other findings as listed with the exception of the financial result that intuitively comes from the reversal of the industry factor assessment, necessitating a revision of the defective pricing result within the draft findings (EXHIBIT 3.xls, Line 5 2007 FEHBP audited rates and defective pricing calculation). A comparison of the revised audited line 5 rates for the already-applied industry factor discount indicates the last paragraph of the finding may reasonably be revised to:

**“A comparison of our audited line 5 rates to the Plan’s reconciled line 5 rates shows that the FEHBP owes the Plan a refund of \$141,440 for the high option, and \$48,807 for the standard option in 2007.”**



## Appendix

### **Contract Year 2008**

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## Appendix

calculation). A comparison of the revised audited line 5 rates for the already-applied industry factor discount indicates the last paragraph of the finding may reasonably be revised to:

**“A comparison of our audited line 5 rates to the Plan’s reconciled line 5 rates shows that the FEHBP was overcharged \$256,669 for the high option in 2008. The standard option was undercharged \$32,562 in 2008, which should be refunded to the Plan.”**

### **Contract Year 2009**

The Plan respectfully disagrees with the findings of the OIG for Contract Year 2009 in regard to the findings that it incorrectly changed the FEHBP’s prescription drug benefit relativity factor. A review of the Plan’s 2009 Benefit brochure (EXHIBIT 8.pdf, Plan Benefit Brochure, 2009), page 8, indicates a caveat which states in part:

“Do not rely only on these change descriptions; this Section is not an official statement of benefits. For that, go to Section 5 Benefits.”

Section 5 lists the official statement benefits within the brochure for all options. The High and Standard Options (beginning on page 45, section 5(f)) and the HDHP Option (beginning on page 84, section 5(f)) lists official statements of benefits for pharmacy which are complete and without error.

In addition, the pharmacy Adjustment for Change In Plan factor adjusts the experience for benefit changes which may have occurred from the experience period to the current period, or when a significant shift of enrollment from one plan to another in the current census compared to the experience period membership in each plan (EXHIBIT 9.doc, ERNIE V2 Formula Document\_v4-22-09, page 15, 7.1.1). The benefit adjustment represents the expected claims utilization change due to the enrollment shift. *Therefore, a group can have a benefit adjustment other than 1.00 even when there is no change in benefit plans offered during an experience period.* The Plan believes it correctly applied the factor (██████) in this manner, and it respectfully requests that the original value of ██████ be used to calculate the audited line 5 rates of the FEHBP.

The Plan also respectfully disagrees with the findings of the OIG for Contract Year 2009 in regard to the findings that the Plan issued a ██████% discount for the SSSG ██████

On page 7 of the FEHBP Reconciliation instructions for 2009, the Plan refers to the following (EXHIBIT 10.pdf, FEHBP Reconciliation Instructions, 2009):

### **“Special Adjustments to SSSG Rates**

We will consider adjustments to SSSG rates based on estimated new business if:

- 1) The carrier can give a reasonable justification
- 2) The method is not intended to give a discount
- 3) It is the carrier’s policy to make such adjustments.”



## Appendix

The Plan believes that [REDACTED] one of the two SSSGs for the Maryland Plan for Contract Year 2009, meets all the criteria of having special adjustments to its rates, and therefore, the differential from the FEHBP audited rates and its billed rates should not be considered a discount of [REDACTED] % as stated by the OIG in its draft findings.

- *Criteria 1: the carrier can give a reasonable justification for the adjustment in rate.*

Justification: The employer group, [REDACTED] is a slice account for Coventry of Maryland. On 02/19/2008, the Plan was notified that another carrier which shared the account population was presenting a rate which would cause adverse selection within the Coventry of Maryland population for [REDACTED] potentially driving the healthier population to enroll in the competing carrier's plan and therefore, placing the Plan in jeopardy of underfunding for the prospective year (EXHIBIT 11.pdf, Confidential Broker Communications Email, circled comments).

- *Criteria 2: the method is not intended to give a discount.*

Rationale: The Plan, desiring to take into account any change in experience basis given the notification of potential adverse selection, and wishing to avoid the loss of a large customer, ran an additional quote capture which included an experience period one month later than the original on 02/20/2008 for the SSSG [REDACTED]. Based on actual data, this experience period cannot be considered "discounted" but instead is a revised basis on which to accurately project rates based on changes to the original assumptions of risk to the Plan.

*Criteria 3: It is the carrier's policy to make such adjustments.*

Process: The Plan regularly refreshes experience period bases for quotes that present changes to the original assumptions of risk to the Plan, to the degree it is an automated, documented process (EXHIBIT 12.doc, ERNIE V2Training Manual\_UW Version\_v041309, page 57). In addition, an UW may also make changes to demographic and other assumptions, particularly in slice cases. In fact, considering the revised experience for [REDACTED] the Plan felt confident that no virtually changes in prospective demographics would take place, and so assigned the adjustment for change in demographics factor a value of 1.000 within its calculations (EXHIBIT 13.xls, [REDACTED] QID 73242). A close examination of the age-sex factors of the 9/1/2008 quote relative to the 9/1/2009 quote for [REDACTED] in fact shows the proof of this assumption being accurate: the CRC age-sex factor for 9/1/2008 was [REDACTED], while the CRC age-sex factor for 9/1/2009 remained virtually unchanged at [REDACTED] (EXHIBIT 14.xls, age-sex comparison for [REDACTED] 2008 and 2009).

Therefore, the Plan respectfully requests a reversal of the finding that a discount was given to [REDACTED]. As the Plan agrees that [REDACTED] was given a [REDACTED] % discount, this discount, and not a discount of [REDACTED] %, should be applied to the audited line 5 FEHBP rates for 2009 (EXHIBIT15.xls, Line 5 2009 FEHBP audited rates and defective pricing calculation ).

The Plan does not disagree with the other findings as listed with the exception of the financial result that intuitively comes from the reversal of the pharmacy adjustment for change in plan factor and the finding that no discount for [REDACTED] discount exists:

## Appendix

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Referring to the 2008 Contract year, the Plan agrees that the SSSG [REDACTED] received a [REDACTED] % discount.

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The Plan also disagrees with the findings that it incorrectly changed the FEHBP's prescription drug benefit relativity factor. A review of the Plan's 2008 Benefit brochure, page 8, indicates a caveat which states in part:

“Do not rely only on these change descriptions; this Section is not an official statement of benefits. For that, go to Section 5 Benefits.”

Section 5 lists the official statement benefits within the brochure for all options. The High and Standard Options (beginning on page 44, section 5(f)) and the HDHP Option (beginning on page 84, section 5(f)) lists official statements of benefits for pharmacy which are complete and without error (EXHIBIT 6.pdf, Plan Benefit Brochure, 2008).

In addition, the manual prescription drug benefit relativity factor does not measure a change from prior year to the prospective year: it measures the change in utilization from a base rate to the described benefit. Changes in utilization patterns occur over time even if the benefits remain identical. Therefore, it is reasonable to conclude that even when benefits are identical over successive years, the benefit relativity for a specific benefit level can and often does change over those years.

The Plan does not disagree with the other findings as listed with the exception of the financial result that intuitively comes from the reversal of the industry factor and pharmacy benefit relativity assessments, necessitating a revision of the defective pricing result within the draft findings (EXHIBIT 7.xls, Line 5 FEHBP 2008 audited rates and defective pricing

## Appendix

reversing these necessitates a revision of the defective pricing result within the draft findings.

**“A comparison of our audited line 5 rates to the Plan’s reconciled line 5 rates shows that the FEHBP was undercharged \$150,125 for the high option in 2009, while the standard option was undercharged \$15,400 in 2009: this amount should be refunded to the Plan.”**

Please do not hesitate to contact me should you require more information or have questions.

Sincerely,

[REDACTED]

Coventry Health Care, Inc.  
1100 Circle 75 Parkway, Suite 1400  
Atlanta, GA 30339