



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  
Kansas, Inc.**

**Report No. 1C-HA-00-12-069**

**Date: June 3, 2013**

**-- CAUTION --**

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## AUDIT REPORT

**Federal Employees Health Benefits Program  
Community-Rated Health Maintenance Organization  
Coventry Health Care of Kansas, Inc.  
Contract Number CS 1948-A - Plan Code HA/9H  
Kansas City, Missouri**

Report No. 1C-HA-00-12-069

Date: 06/03/13



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**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 Kansas, Inc.  
Contract Number CS 1948-A - Plan Code HA/9H  
Kansas City, Missouri**

**Report No. 1C-HA-00-12-069**

**Date: 06/03/13**

The Office of the Inspector General performed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Coventry Health Care of Kansas, Inc. – plan codes HA and 9H (Plan). The audit covered contract years 2009 and 2010. The audit was conducted at the Plan’s office in Kansas City, Missouri and included plan codes HA and 9H.

This report questions \$127,617 for inappropriate health benefit charges to the FEHBP in contract year 2009. The questioned amount includes \$115,153 for defective pricing and \$12,464 for lost investment income. 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 2010.

For contract year 2009, the Plan incorrectly calculated the benefit change factors for the standard, high and high deductible health plan (HDHP) options.

Consistent with the FEHBP regulations and contract, the FEHBP is due \$12,464 for lost investment income, calculated through May 31, 2013, on the defective pricing finding. In addition, the contracting officer should recover lost investment income on amounts due for the period beginning June 1, 2013, until all defective pricing amounts have been returned to the FEHBP.

# CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	5
Premium Rate Review .....	5
1. Defective Pricing .....	5
2. Lost Investment Income.....	6
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	7
Exhibit A (Summary of Questioned Costs)	
Exhibit B (Defective Pricing Questioned Costs)	
Exhibit C (Lost Investment Income)	
Appendix (Coventry Health Care of Kansas, Inc.'s February 12, 2013, response to the draft report)	

## **I. INTRODUCTION AND BACKGROUND**

### **Introduction**

We completed an audit of the Federal Employees Health Benefits Program (FEHBP) operations at Coventry Health Care of Kansas, Inc. – plan codes HA and 9H (Plan). The audit covered contract years 2009 and 2010, and was conducted at the Plan’s office in Kansas City, Missouri. The audit was conducted pursuant to the provisions of Contract CS 1948-A; 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.

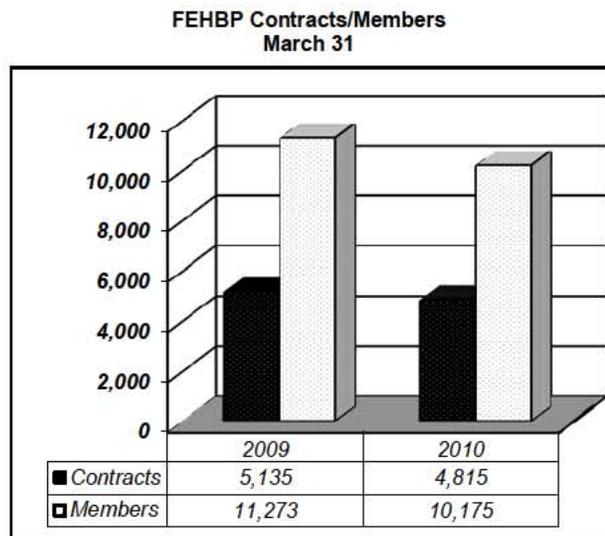
### **Background**

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 1984 and provides health benefits to FEHBP members in the Kansas City Metropolitan Area (Kansas and Missouri) and the Wichita, Salina, and Central Kansas areas. The last full scope audit of the Plan conducted by our office covered contract years 2006 through 2008. All issues 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 preparation of this report and included, as appropriate, in the Appendix.

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

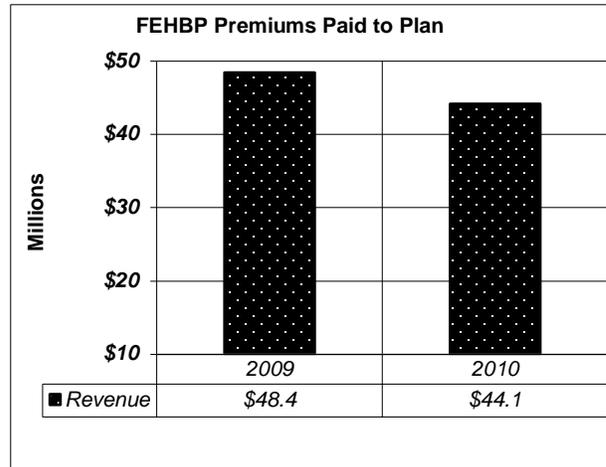
### **Objectives**

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 2009 and 2010. For these years, the FEHBP paid approximately \$92.5 million in premiums to the Plan, as shown on the chart above.



OIG audits of community-rated carriers are designed to test carrier compliance with the FEHBP contract, applicable laws and regulations, and OPM rate instructions. These audits are also designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts.

We obtained an understanding of the Plan's internal control structure, but we did not use this information to determine the nature, timing, and extent of our audit procedures. However, the audit included such tests of the Plan's rating system and such other auditing procedures considered necessary under the circumstances. Our review of internal controls was limited to the procedures the Plan has in place to ensure that:

- The appropriate similarly sized subscriber groups (SSSG) were selected;
- the rates charged to the FEHBP were the market price rates (i.e., equivalent to the best rate offered to the SSSGs); and
- the loadings to the FEHBP rates were reasonable and equitable.

In conducting the audit, we relied to varying degrees on computer-generated billing, enrollment, and claims data provided by the Plan. We did not verify the reliability of the data generated by the various information systems involved. However, nothing came to our attention during our

audit testing utilizing the computer-generated data to cause us to doubt its reliability. We believe that the available data was sufficient to achieve our audit objectives. Except as noted above, the audit was conducted in accordance with generally accepted government auditing standards, issued by the Comptroller General of the United States.

The audit fieldwork was performed at the Plan's office in Kansas City, Missouri during August 2012. Additional audit work was completed at our offices 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**

**\$115,153**

The Certificate of Accurate Pricing the Plan signed for contract year 2009 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 totaling \$115,153 (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 year 2010.

Carriers proposing rates to OPM are required to submit a Certificate of Accurate Pricing certifying that the proposed subscription rates, subject to adjustments recognized by OPM, are market price rates. OPM regulations refer to a market price rate in conjunction with the rates offered to an SSSG. SSSGs are the Plan's two employer groups closest in subscriber 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.

#### **2009**

We agree with the Plan's selections of [REDACTED] as SSSGs for contract year 2009. Our analysis of the rates charged to the audited SSSGs shows that neither group received a discount.

Our analysis of the rates charged to the FEHBP shows that the Plan incorrectly calculated the benefit change factors for the standard, high and high deductible health plan (HDHP) options. Based on the support provided by the Plan, our audited benefit change factors from the current period (2008) to the renewal period (2009) compared to the Plan's benefit change factors are as follows:

<b><u>Options (2008 to 2009)</u></b>	<b><u>Audited</u></b>	<b><u>Per Plan</u></b>
Standard Option	[REDACTED]	[REDACTED]
High Option	[REDACTED]	[REDACTED]
HDHP Option	[REDACTED]	[REDACTED]

A comparison of our audited line 5 rates to the Plan's reconciled line 5 rates shows that the FEHBP was overcharged \$115,153 (see Exhibit B) for all options in 2009.

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

The Plan agrees with our finding.

## **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$115,153 to the FEHBP for defective pricing in contract year 2009.

## **2. Lost Investment Income**

**\$12,464**

In accordance with the FEHBP regulations and the contract between OPM and the Plan, the FEHBP is entitled to recover lost investment income on the defective pricing finding in contract year 2009. We determined that the FEHBP is due \$12,464 for lost investment income, calculated through May 31, 2013 (see Exhibit C). In addition, the FEHBP is entitled to lost investment income for the period beginning June 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

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 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 with our finding.

## **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$12,464 to the FEHBP for lost investment income, calculated through May 31, 2013. We also recommend that the contracting officer recover lost investment income on amounts due for the period beginning June 1, 2013, until all defective pricing finding amounts have been returned to the FEHBP.

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

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

██████████ Auditor-in-Charge

██████████, Auditor

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██████████ Chief

██████████, Senior Team Leader

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

Defective Pricing Questioned Costs:

Contract Year 2009 \$115,153

Total Defective Pricing Questioned Costs: \$115,153

Lost Investment Income: \$12,464

**Total Questioned Costs: \$127,617**

**Coventry Health Care of Kansas City, Inc.  
Defective Pricing Questioned Costs**

**2009**

**Standard Option (Plan code HA)**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Bi-weekly Result	[REDACTED]	[REDACTED]	
To Annualize Overcharge:			
March 31, 2009 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	
Total 2009 Standard Option Audit Variance			<b>(\$41,734)</b>

**High Option (Plan code HA)**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Bi-weekly Result	[REDACTED]	\$ [REDACTED]	
To Annualize Overcharge:			
March 31, 2009 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	
Total 2009 High Option Defective Pricing Questioned Costs			<b>\$218,055</b>

**HDHP (Plan code 9H)**

	<u>Self</u>	<u>Family</u>	
FEHBP Line 5 - Reconciled Rate	[REDACTED]	[REDACTED]	
FEHBP Line 5 - Audited Rate	[REDACTED]	[REDACTED]	
Bi-weekly Result	[REDACTED]	[REDACTED]	
To Annualize Overcharge:			
March 31, 2009 Enrollment	[REDACTED]	[REDACTED]	
Pay Periods	<u>26</u>	<u>26</u>	
Subtotal	[REDACTED]	[REDACTED]	
Total 2009 HDHP Option Audit Variance			<b>(\$61,168)</b>

**Total Defective Pricing Questioned Costs For 2009** **\$115,153**

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

<b>Year</b>	2009	2010	2011	2012	As of May 31, 2013	Total
<b>Audit Findings:</b>						
1. Defective Pricing	\$115,153	\$0	\$0	\$0	\$0	\$115,153
<hr/>						
Totals (per year):	\$115,153	\$0	\$0	\$0	\$0	\$115,153
Cumulative Totals:	\$115,153	\$115,153	\$115,153	\$115,153	\$115,153	\$115,153
Avg. Interest Rate (per year):	5.250%	3.188%	2.563%	1.875%	1.375%	
Interest on Prior Years Findings:	\$0	\$3,671	\$2,951	\$2,159	\$660	\$9,441
Current Years Interest:	\$3,023	\$0	\$0	\$0	\$0	\$3,023
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Total Cumulative Interest Calculated Through May 31, 2013:	\$3,023	\$3,671	\$2,951	\$2,159	\$660	<b>\$12,464</b>



February 12, 2013

RECEIVED FEB 20 2013

[REDACTED]  
US Office of Personnel Management  
Office of the Inspector General  
800 Cranberry Woods Drive, Suite 270  
Cranberry Township, PA 16066

[REDACTED]  
This letter is in response to the Draft Audit Report of Coventry Health Care of Kansas, Inc. (Report No. 1C-HA-00-12-069). First, I wanted to express our appreciation for the work that the examiners performed both prior to and during the onsite audit review process. I also wanted to thank you for provided additional information to assist Coventry in reviewing the findings listed in the draft report.

After review of the draft report and supplemental information provided, Coventry Health Care of Kansas, Inc. accepts the Office of Personnel Management's findings and will comply with the recommendations listed.

If you have any questions or require additional information, please feel free to contact me at [REDACTED]

Sincerely,

[REDACTED]  
Director, Policy and Compliance  
Coventry Health Care of Kansas, Inc.

cc: File