



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

Final Audit Report

Subject:

AUDIT OF BLUECROSS BLUESHIELD OF ARIZONA PHOENIX, ARIZONA

Report No. 1A-10-56-13-047

Date: February 25, 2014

--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 propriety information that was redacted from the publicly distributed copy.

AUDIT REPORT

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
BlueCross BlueShield Association
Plan Code 10

BlueCross BlueShield of Arizona
Plan Codes 030/530
Phoenix, Arizona

REPORT NO. 1A-10-56-13-047

DATE: February 25, 2014



Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
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Plan Codes 030/530
Phoenix, Arizona

REPORT NO. 1A-10-56-13-047 DATE: February 25,2014

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Arizona (Plan), located in Phoenix, Arizona, questions \$1,901,078 in administrative expenses. The report also includes a procedural finding for the Plan's Fraud and Abuse (F&A) Program. The BlueCross BlueShield Association (Association) agreed (**A**) with the questioned charges and generally agreed with the procedural finding regarding the Plan's F&A Program.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits and administrative expenses from 2008 through 2012 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management activities and practices related to FEHBP funds from 2008 through 2012 and the Plan's F&A Program from 2008 through May 31, 2013.

The audit results are summarized as follows:

MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that the Plan returned health benefit refunds and recoveries, including medical drug rebates, to the FEHBP in a timely manner, and properly charged miscellaneous payments to the FEHBP.

ADMINISTRATIVE EXPENSES

- **Unreasonable and/or Unallocable Costs (A)** **\$1,107,107**

The Plan charged unreasonable and/or unallocable cost center expenses of \$1,128,845 to the FEHBP. In addition, the Plan made an unnecessary out-of-system adjustment, resulting in the Plan inadvertently excluding \$21,738 in chargeable costs. As a result, the Plan overcharged the FEHBP \$1,107,107 (net) from 2008 through 2012.

- **Post-Retirement Benefit Costs (A)** **\$802,171**

The Plan overcharged the FEHBP \$802,171 for post-retirement benefit costs in 2011 and 2012.

- **Pension Costs (A)** **(\$8,200)**

The Plan undercharged the FEHBP \$8,200 for pension costs from 2010 through 2012.

CASH MANAGEMENT

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

FRAUD AND ABUSE PROGRAM

- **Special Investigations Unit** **Procedural**

The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in Contract CS 1039 and FEHBP Carrier Letter 2011-13. Specifically, the Plan did not report, or did not timely report, all fraud and abuse cases to the Office of Personnel Management's Office of the Inspector General (OIG). The Plan's non-compliance may be due in part to incomplete and/or untimely reporting of fraud and abuse cases to the Association's Federal Employee Program Director's Office (FEPDO), as well as inadequate controls at the FEPDO to monitor and communicate the Plan's cases to the OIG. Without awareness of these existing potential fraud and abuse issues, the OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole. The Association generally agreed with this procedural finding.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Arizona (Plan). The Plan is located in Phoenix, Arizona.

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 (FEHB) 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. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The BlueCross BlueShield Association (Association), on behalf of participating BlueCross and BlueShield plans, has entered into a Government-wide Service Benefit Plan contract (CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BlueCross and BlueShield plans throughout the United States to process the health benefit claims of its federal subscribers. This Plan is one of approximately 64 local BlueCross and BlueShield plans participating in the FEHBP.

The Association has established a Federal Employee Program (FEP¹) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BlueCross and BlueShield plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BlueCross BlueShield, located in Washington, D.C. These activities include acting as fiscal intermediary between the Association and member plans, verifying subscriber eligibility, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining an accounting of all program funds.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Association and Plan management. Also, management of the Plan is responsible for establishing and maintaining a system of internal controls.

¹ Throughout this report, when we refer to "FEP", we are referring to the Service Benefit Plan lines of business at the Plan. When we refer to the "FEHBP", we are referring to the program that provides health benefits to federal employees.

All findings from our previous audit of the Plan (Report No. 1A-10-56-07-024, dated April 4, 2008) for contract years 2002 through 2006 have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated September 26, 2013. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

The objectives of our audit were to determine whether the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly to the FEHBP.

Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

Cash Management

- To determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases were in compliance with the terms of Contract CS 1039 and the applicable FEHBP Carrier Letters.

SCOPE

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 030 and 530 for contract years 2008 through 2012. During this period, the Plan paid approximately \$1.4 billion in health benefit charges and \$113 million in administrative expenses (See Figure 1 and Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, medical drug rebates, and fraud recoveries), administrative expenses, and cash management activities for 2008 through 2012. We also reviewed the Plan's F&A Program for 2008 through May 31, 2013.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

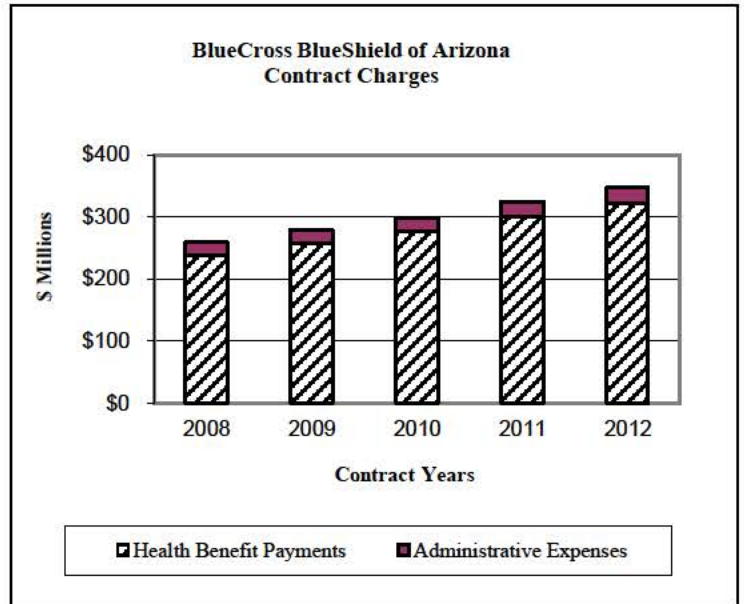


Figure 1 - Contract Charges

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director's Office and the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit testing, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in Phoenix, Arizona from June 4, 2013 through June 27, 2013. Audit fieldwork was also performed at our office in Cranberry Township, Pennsylvania.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan's financial, cost accounting and cash management systems by inquiry of Plan officials.

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed 173 high dollar health benefit refunds, totaling \$6,712,193 (from a universe of 65,808 refunds, totaling \$32,571,930); 22 special plan invoices (SPI), totaling \$2,627,885 in net FEP payments (from a universe of 167 SPIs, totaling \$11,906,913 in net FEP payments); 12 fraud and abuse recoveries, totaling \$87,437 (from a universe of 201 recoveries, totaling \$132,491); and all FEP medical drug rebate amounts, totaling \$28,692, to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.² The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2008 through 2012. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee health benefits, executive compensation, non-recurring projects, gains and losses, return on investment, subcontracts, and the Health Insurance Portability and Accountability Act of 1996. We used the FEHBP contract, the FAR, and the FEHBPBAR to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. We also interviewed the Plan's Special Investigations Unit regarding the effectiveness of the F&A Program, as well as reviewed the Plan's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and the applicable FEHBP Carrier Letters.

² The sample of health benefit refunds included all solicited refund receipts of \$15,000 or more, all unsolicited refund receipts of \$30,000 or more, and all provider offsets of \$22,000 or more. For the SPI sample, we selected two SPI's with the highest miscellaneous payment amounts and two SPI's with the highest miscellaneous credit amounts from each year in the audit scope, as well as two SPI's with the highest restitution income amounts during the audit scope. For the sample of fraud and abuse recoveries, we selected all recoveries of \$2,000 or more.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that the Plan returned health benefit refunds and recoveries, including medical drug rebates, to the FEHBP in a timely manner, and properly charged miscellaneous payments to the FEHBP.

B. ADMINISTRATIVE EXPENSES

1. Unreasonable and/or Unallocable Costs **\$1,107,107**

The Plan charged unreasonable and/or unallocable cost center expenses of \$1,128,845 to the FEHBP. In addition, the Plan made an unnecessary out-of-system adjustment, resulting in the Plan inadvertently excluding \$21,738 in chargeable FEP costs. As a result, the Plan overcharged the FEHBP \$1,107,107 (net) from 2008 through 2012.

Contract CS 1039, Part III, section 3.2 (b)(1) states, “The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable.”

48 CFR 31.201-4 states, “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it-

- a) Is incurred specifically for the contract;
- b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.”

For the period 2008 through 2012, the Plan allocated administrative expenses of \$128,727,158 (before adjustments) to the FEHBP from 226 cost centers. From this universe, we selected a judgmental sample of 36 cost centers to review, which totaled \$84,261,426 in expenses allocated to the FEHBP. We selected the cost centers based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers for allowability, allocability, and reasonableness.

During this period, the Plan also made 60 out-of-system adjustments, totaling \$2,974,247 in net charge adjustments to the FEHBP. From this universe, we selected and reviewed a judgmental sample of 16 adjustments, totaling \$47,499 in net credit adjustments, for the purpose of determining if the Plan properly charged or credited these adjustments to the FEHBP. We selected the highest charge and credit adjustments from each year in the audit scope, as well as additional adjustments based on our nomenclature review.

Based on our review, we determined the following:

- The Plan did not reasonably allocate cost center (CC) expenses to the FEHBP for CC's 0406 (ICS - Benefit Analysis/Benefit Programming) and 0506 (Benefit Programming). The Plan used allocation methods such as project reporting, participants, and claims to allocate these CC expenses to the FEP, when the Plan should have used the benefit packages method. As a result, the FEHBP was overcharged \$1,105,407 for these CC expenses.
- The Plan charged CC expenses to the FEHBP that did not benefit the FEHBP. Specifically, as a result of an interview with the manager for CC 0840 (Network Management), we determined that the Plan inappropriately allocated \$23,438 in printing costs to the FEP for the Plan's local line of business directories. These costs were allocated to the FEP from CC's 0840 (Network Management), 0832 (Provider Network Administration), and 0409 (eChannel Business Operations) from 2008 through 2012.
- The Plan made an unnecessary out-of-system adjustment to reduce costs charged from CC 0647 (Care Coordination). Specifically, the Plan identified an allocation error and appropriately adjusted the allocation method in the system in October 2010. However, at year-end, the Plan also made a manual out-of-system adjustment to correct the same error. As a result of this oversight, the Plan reduced these FEP costs twice, resulting in an undercharge of \$21,738 to the FEHBP.

In total, these errors resulted in net overcharges of \$1,107,107 to the FEHBP from 2008 through 2012.

Association's Response:

The Association agrees with this finding. The Association states, "The Plan agreed with this finding and submitted Prior Period Adjustments (PPA) to adjust the costs in the amount of \$1,107,107 on October 3, 2013."

The Association also states, "the Plan has implemented the following:

- The Cost Center Review (CCR) template has been revised and formatted in Excel, replacing the Word template. This allows the Plan to extract data from their Cost Accounting System and other Excel files resulting in efficiencies and better accuracy.
- To help ensure that cost center managers are reviewing the allocation percentages to each line of business, the CCR template now requires the user to select 'Yes' or 'No' as to whether their cost center supports a line of business. If the cost center indicates they support FEP, an additional question is asked as to whether the FEP percentage is reasonable. As it was before, the cost center's management approval of how their cost center is allocating to lines of business is required.

- A CCR template will be completed for every cost center annually and will continue to be peer reviewed in Cost Accounting and require the Cost Accounting manager’s sign-off. . . .”

OIG Comments:

The Plan has unfunded allowable costs from 2008 through 2012. Since the Plan’s total unreimbursed costs exceed the uncontested questioned costs, the prior period adjustments should be netted against the Plan’s unfunded costs. Therefore, there is no impact on the amount charged to the FEHBP, which makes a lost investment income (LII) calculation unnecessary for this finding.

Recommendation 1

We recommend that the contracting officer verify that the Plan submitted prior period adjustments of \$1,107,107 (i.e., \$109,549 for 2008; \$121,945 for 2009; \$140,019 for 2010; \$324,254 for 2011; and \$411,340 for 2012) to properly reduce the filed costs on the Plan’s annual cost submissions for 2008 through 2012.

2. Post-Retirement Benefit Costs **\$802,171**

The Plan overcharged the FEHBP \$802,171 for post-retirement benefit (PRB) costs in 2011 and 2012.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable and reasonable.

48 CFR 31.205-6(o)(2) states, “To be allowable, PRB costs must be reasonable and incurred pursuant to law, employer-employee agreement, or an established policy of the contractor. In addition, to be allowable, PRB costs must also be calculated in accordance with paragraphs (o)(2)(i), (ii), or (iii) of this section.”

48 CFR 31.205-6(o)(3) states, “To be allowable, costs must be funded by the time set for filing the Federal income tax return or any extension thereof. PRB costs assigned to the current year, but not funded or otherwise liquidated by the tax return time, shall not be allowable in any subsequent year.”

From 2008 through 2012, the Plan charged \$1,285,237 to the FEHBP for PRB costs. The Plan used the cash (pay as you go) method from 2008 through 2010 and the accrual method in 2011 and 2012 to charge PRB costs to the FEHBP. We reviewed the Plan’s calculations of the PRB costs chargeable to the FEHBP and determined if these costs were calculated in accordance with 48 CFR 31.205-6(o). Based on our review, we determined that the Plan overcharged the FEHBP \$802,171 for PRB costs.

The following summarizes the exceptions noted:

- The Plan did not make an out-of-system adjustment for PRB costs in 2011, resulting in an overcharge of \$788,245 to the FEHBP. This adjustment should have been made to reduce FEP costs to the lower of benefit cost or the contribution amount. In this case, the adjustment should have reduced FEP costs to \$0 because the Plan did not fund PRB costs in 2011.
- In 2012, the Plan made an out-of-system adjustment but removed an amount less than what the Plan should have, resulting in an overcharge of \$13,926 to the FEHBP. The Plan stated that this was the result of an oversight in removing all non-chargeable costs.

Association’s Response:

The Association agrees with this finding. The Association states, “The Plan agreed with this finding and submitted Prior Period Adjustments totaling \$802,171 on October 3, 2013.”

The Association also states, “This overcharge was a result of an oversight of the Plan’s procedures. The Plan’s procedures have been strengthened to ensure this does not happen in the future.”

OIG Comments:

The Plan has unfunded allowable costs for 2011 and 2012. Since the Plan’s total unreimbursed costs exceed the uncontested questioned costs, the prior period adjustments should be netted against the Plan’s unfunded costs. Therefore, there is no impact on the amount charged to the FEHBP, which makes an LII calculation unnecessary for this finding.

Recommendation 2

We recommend that the contracting officer verify that the Plan submitted prior period adjustments of \$802,171 (i.e., \$788,245 for 2011 and \$13,926 for 2012) to properly reduce the filed costs on the Plan’s annual cost submissions for 2011 and 2012.

3. Pension Costs (\$8,200)

The Plan undercharged the FEHBP \$8,200 for pension costs from 2010 through 2012.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable and reasonable.

48 CFR 31.205-6(j)(2) states, “The cost of all defined-benefit pension plans shall be measured, allocated, and accounted for in compliance with the provisions of 48 CFR 9904.412, Cost accounting standard for composition and measurement of pension cost, and 48 CFR 9904.413, Adjustment and allocation of pension cost. The costs of all defined-contribution pension plans shall be measured, allocated, and accounted for in accordance with the provisions of 48 CFR 9904.412 and 48 CFR 9904.413. Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j) (2) (i) and in paragraphs (j) (3) through (8) of this subsection.”

FAR limits the amount of pension cost that may be charged to a government contract to the amount of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standard (CAS) 412 and 413, whichever is lower.

For the period 2008 through 2012, the Plan allocated \$8,958,621 to the FEP for pension costs. We reviewed all of the FEP pension costs to determine if the amounts were properly charged to the FEHBP in accordance with the federal regulations. Based on our review, we determined that the Plan made errors when adjusting the FEP pension costs to the lower of the CAS amounts or cash contributions. Specifically, the Plan overcharged the FEHBP \$4,674 in 2010 and undercharged the FEHBP \$7,406 and \$5,468 in 2011 and 2012, respectively. The effect of these errors is a net undercharge to the FEHBP of \$8,200 for pension costs from 2010 through 2012.

Association’s Response:

The Association agrees with this finding. The Association states, “The Plan agreed with this finding and filed the appropriate Prior Period Adjustments on October 3, 2013.”

OIG Comments:

The Plan has unfunded allowable costs from 2010 through 2012. Since the Plan’s total unreimbursed costs exceed the uncontested questioned costs, the prior period adjustments should be netted against the Plan’s unfunded costs. There is no impact on the amount charged to the FEHBP, which makes an LII calculation on the 2010 overcharge unnecessary for this finding.

Recommendation 3

We recommend that the contracting officer verify that the Plan submitted prior period adjustments to properly adjust the filed costs on the Plan’s annual cost submissions for the pension cost overcharge of \$4,674 in 2010, the pension cost undercharge of \$7,406 in 2011, and the pension cost undercharge of \$5,468 in 2012.

C. CASH MANAGEMENT

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

D. FRAUD AND ABUSE PROGRAM

1. Special Investigations Unit

Procedural

The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in Contract CS 1039 and FEHBP Carrier Letter (CL) 2011-13. Specifically, the Plan did not report, or did not timely report, all fraud and abuse cases to the OIG. The Plan's non-compliance may be due in part to incomplete and/or untimely reporting of fraud and abuse cases to the Association's FEP Director's Office (FEPDO), as well as inadequate controls at the FEPDO to monitor and communicate the Plan's FEP fraud and abuse cases to the OIG. Without awareness of these existing potential fraud and abuse issues, the OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole.

Contract CS 1039, Section 1.10 (a)(12) requires the Carrier to notify the contracting officer of any significant events, which includes instances of fraud, within 10 working days after they become aware of it.

CL 2011-13 (Mandatory Information Sharing via Written Case Notifications to OPM's Office of the Inspector General), dated June 17, 2011, states that all Carriers "are required to submit a written notification to the OPM OIG . . . within 30 working days of becoming aware of a fraud, waste or abuse issue where there is a reasonable suspicion that a fraud has occurred or is occurring against the Federal Employees Health Benefits (FEHB) Program." There is no dollar threshold for this requirement.

During the period January 1, 2013 through May 31, 2013, the Plan opened 34 fraud and abuse cases. Of these, we identified and reviewed 29 cases with FEP exposure to determine if these cases were reported to the OIG as required by Contract CS 1039 and CL 2011-13. Based on our review, we determined that notifications for only 3 of the 29 fraud and abuse cases with FEP exposure were sent to the OIG. Because all of these cases have FEP exposure, and there is no dollar threshold for reporting suspected fraud against the FEHBP, these cases should have been reported to the OIG as required by CL 2011-13. Moreover, the three notifications that the OIG received were sent 66 to 278 days after the Plan had identified the FEP exposure, which does not meet the 30-day timeliness requirement defined in CL 2011-13. Additionally, the Plan noted that one of these fraud and abuse cases had an indication of potential patient harm, significant media attention, or other exceptional circumstances. However, neither the OIG nor OPM's contracting officer was notified of this issue, as required by Contract CS 1039 and CL 2011-13.

The Plan's non-compliance with the communication and reporting requirements in Contract CS 1039 and CL 2011-13 may be due, in part, to the Plan untimely communicating or not reporting potential FEP fraud and abuse cases to the FEPDO's Special Investigations Unit (SIU). The FEPDO's SIU sends notifications of fraud and abuse cases to the OIG on behalf of the Plan. However, the Plan must first report the fraud and abuse cases with FEP exposure to the FEPDO's SIU, which is accomplished when the Plan enters the cases into the FEPDO's Fraud Information Management System (FIMS).³ The Plan and the FEPDO's internal policies and procedures require the Plan to enter a case into FIMS as soon as an investigation is opened and/or within 30 days of any relevant FEP fraud activity. However, of the 29 cases with FEP exposure during the period January 1, 2013 through May 31, 2013, we determined that 17 cases were entered into FIMS untimely and 12 cases were not entered into FIMS at all. We noted that the Plan subsequently added the 12 cases into FIMS as a result of our audit. Without timely FIMS case entries by the Plan, the FEPDO's SIU cannot meet the FEHBP's contractual communication and reporting requirements.

Ultimately, both the Plan's untimely reporting of potential FEP cases to the FEPDO's SIU and the FEPDO SIU's inadequate controls to monitor the Plan's FIMS entries and notify the appropriate entities of these cases have resulted in a failure to meet the communication and reporting requirements that are set forth in Contract CS 1039 and CL 2011-13. The lack of referrals and/or untimely case notifications did not allow the OIG to investigate whether other FEHBP Carriers are exposed to the identified provider committing fraud against the FEHBP. This also does not allow the OIG's Administrative Sanctions Group to be notified timely. Consequently, this non-compliance by the Plan and FEPDO may result in additional improper payments being made by other FEHBP Carriers.

Recommendation 4

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are set forth in Contract CS 1039 and CL 2011-13. We also recommend that the contracting officer instruct the Association to provide the Plan with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.

Association's Response:

The Association states, "The Plan has agreed with this recommendation and implemented the following procedures on September 16, 2013:

- The Plan now enters cases into FIMS at the conclusion of the triage process or preliminary investigation. Plan SIU's triage/preliminary investigation process

³ FIMS is a multi-user, web-based case-tracking database that the FEPDO's SIU developed in-house.

includes the identification of claims exposure within 30 days of receipt which will aid in the timely entry to FIMS.

- The Plan implemented a quality review process during triage/preliminary investigation to monitor compliance of FIMS entries.
- The Plan updated their desk level procedure revising the scope, policy and procedure to define the new triage and quality review process for FIMS entry.”

Recommendation 5

To ensure that all FEHBP Carriers are reporting statistics to OPM based on the same definitions, we recommend that the contracting officers prepare and distribute to all Carriers the definitions for the terms “fraud”, “waste”, “abuse”, and “reasonable suspicion”.

Association’s Response:

The Association states, “BCBSA issued a revised FEP Fraud Waste and Abuse Program Standards Manual in December 2012 that includes the requirements of the FEHBP, industry standards, case sharing and reporting guidelines, as well as the annual reporting requirements of Carrier Letters 2003-23, 2003-25 and 2011-13. The FEPDO will continue to update this manual as needed based on guidance received from the contracting officer.”

Recommendation 6

We recommend that the contracting officer direct the Association to provide OPM and the OIG full access to FIMS.

Association’s Response:

The Association states, “BCBSA continues to partially disagree with the recommendation to provide the OPM OIG full access to FIMS . . . FIMS is an internal management reporting system used by BCBSA and Local Plans to report Fraud, Waste and Abuse cases. Before cases can be accepted into FIMS, they must be reviewed and evaluated by BCBSA consultants, who then work with Local Plans to ensure the proper data elements are entered. As such, unlimited access by the OIG to the system at this time would result in potential inefficiencies for FEP. However, in order to provide the OPM OIG investigators with efficient, effective and faster access to cases, BCBSA initiated a process where BCBSA and OPM OIG staff meet on a monthly basis at the FEP Director’s Office to review case activity. Beginning in July 2013, the meeting location moved to the FEPOC, where we expect the meetings to continue.”

OIG Comments:

We continue to recommend that the contracting officer direct the Association to provide the OPM and the OIG with full access to FIMS, a program fully paid for by OPM with FEHBP funds. Full access is necessary for OPM and the OIG to monitor the Association's fraud and abuse activity and the FEPDO's oversight, and will allow the OIG to make inquiries when we notice Plan non-compliance by a BCBS plan and/or the FEPDO such as untimely reporting. In addition, it will provide necessary information for analysis purposes prior to future OIG audits. This alone will save time and money for the local BCBS plans and the FEPDO.

The analysis of this Plan's fraud and abuse cases showed that the Plan's entries into FIMS had significant timeliness issues. Of the 29 cases with FEP exposure during the period January 1, 2013 through May 31, 2013, we determined that 17 cases were entered into FIMS untimely and 12 cases were not entered into FIMS until after the audit. If the OIG had full access to FIMS, at least 17 cases would have been reviewed and investigated by us. Also, we would have notified the Plan and FEPDO of the untimely reporting issue in real time and resolved the issue much earlier.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Lead Auditor

██████████ Auditor

██████████, Auditor

██████████, Auditor

██████████, Chief (██████████)

██████████, Senior Team Leader

V. SCHEDULES

BLUECROSS BLUESHIELD OF ARIZONA
PHOENIX, ARIZONA

CONTRACT CHARGES

CONTRACT CHARGES*	2008	2009	2010	2011	2012	TOTAL
A. HEALTH BENEFIT CHARGES						
PLAN CODES 030	\$120,766,703	\$132,973,322	\$143,545,645	\$160,838,429	\$169,470,206	\$727,594,305
MISCELLANEOUS PAYMENTS AND CREDITS	1,854,873	2,475,383	2,713,773	2,510,618	2,352,266	11,906,913
PLAN CODES 530	114,963,966	121,346,431	130,615,478	137,900,103	151,094,759	655,920,737
MISCELLANEOUS PAYMENTS AND CREDITS	0	0	0	0	0	0
TOTAL HEALTH BENEFIT CHARGES	\$237,585,542	\$256,795,136	\$276,874,896	\$301,249,150	\$322,917,231	\$1,395,421,955
B. ADMINISTRATIVE EXPENSES						
PLAN CODE 030	\$21,323,316	\$22,304,662	\$22,218,803	\$23,949,677	\$24,806,556	\$114,603,014
BUDGET SETTLEMENT REDUCTIONS	(397,255)	(281,867)	(672,654)	0	0	(1,351,776)
TOTAL ADMINISTRATIVE EXPENSES	\$20,926,061	\$22,022,795	\$21,546,149	\$23,949,677	\$24,806,556	\$113,251,238
TOTAL CONTRACT CHARGES	\$258,511,603	\$278,817,931	\$298,421,045	\$325,198,827	\$347,723,787	\$1,508,673,193

* This audit covered miscellaneous health benefit payments and credits, administrative expenses, and cash management activities from 2008 through 2012.

BLUECROSS BLUESHIELD OF ARIZONA
PHOENIX, ARIZONA

QUESTIONED CHARGES

AUDIT FINDINGS	2008	2009	2010	2011	2012	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$0	\$0	\$0	\$0	\$0	\$0
B. ADMINISTRATIVE EXPENSES						
1. Unreasonable and/or Unallocable Costs	\$109,549	\$121,945	\$140,019	\$324,254	\$411,340	\$1,107,107
2. Post-Retirement Benefits Costs	0	0	0	788,245	13,926	802,171
3. Pension Costs	0	0	4,674	(7,406)	(5,468)	(8,200)
TOTAL ADMINISTRATIVE EXPENSES	\$109,549	\$121,945	\$144,693	\$1,105,093	\$419,798	\$1,901,078
C. CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$0
D. FRAUD AND ABUSE PROGRAM						
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$109,549	\$121,945	\$144,693	\$1,105,093	\$419,798	\$1,901,078



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans
Federal Employee Program
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Washington, D.C. 20005
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November 22, 2013

██████████, Group Chief
Experience-Rated Audits Group
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, Room 6400
Washington, DC 20415-11000

**Reference: OPM DRAFT AUDIT REPORT
BlueCross BlueShield of Arizona
Audit Report Number 1A-10-56-13-047
(Dated September 26, 2013 and Received September 26, 2013)**

Dear ██████████:

This is the BlueCross BlueShield of Arizona response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). BCBSA and the Plan are committed to enhancing our existing procedures on issues identified by OPM. Please consider this feedback when updating the OPM Final Audit Report.

Our comments concerning the findings in the report are as follows:

A. Miscellaneous Health Benefit Payments and Credits-No Findings

B. Administrative Expenses

1. Unreasonable and/or Unallocable costs \$1,107,107

OPM questioned \$1,107,107 in unallowable/unallocable project costs charged to the FEHBP in 2008-2012. The Plan agreed with this finding and submitted Prior Period Adjustments (PPA) to adjust the costs in the amount of \$1,107,107 on October 3, 2013.

As noted in the draft report, the Plan has implemented the following:

- The Cost Center Review (CCR) template has been revised and formatted in Excel, replacing the Word template. This allows the Plan to extract data from

their Cost Accounting System and other Excel files resulting in efficiencies and better accuracy.

- To help ensure that cost center managers are reviewing the allocation percentages to each line of business, the CCR template now requires the user to select “Yes” or “No” as to whether their cost center supports a line of business. If the cost center indicates they support FEP, an additional question is asked as to whether the FEP percentage is reasonable. As it was before, the cost center’s management approval of how their cost center is allocating to lines of business is required.
- A CCR template will be completed for every cost center annually and will continue to be peer reviewed in Cost Accounting and require the Cost Accounting manager’s sign-off. Beginning in 2012, the Sr. Manager has been meeting with the Cost Center manager and the CCR team monthly to review cost center reviews and current issues.”

2. Post Retirement Benefit Costs \$802,171

The Plan overcharged the FEHBP \$802,171 for post-retirement benefits (PRB) costs in 2011 and 2012. The Plan agreed with this finding and submitted Prior Period Adjustments totaling \$802,171 on October 3, 2013.

This overcharge was a result of an oversight of the Plan’s procedures. The Plan’s procedures have been strengthened to ensure this does not happen in the future.

3. Pension Costs (\$8,200)

The Plan undercharged the Program for pension costs from 2010 through 2012. The Plan agreed with this finding and filed the appropriate Prior Period Adjustments on October 3, 2013.

C. Cash Management – No findings

D. Fraud and Abuse Program Procedural

Recommendation 4

OPM recommended that the contracting officer direct the Association to ensure that the Plan makes the referenced procedural changes.

The Plan has agreed with this recommendation and implemented the following procedures on September 16, 2013:

- The Plan now enters cases into FIMS at the conclusion of the triage process or preliminary investigation. Plan SIU's triage/preliminary investigation process includes the identification of claims exposure within 30 days of receipt which will aid in the timely entry to FIMS.
- The Plan implemented a quality review process during triage/preliminary investigation to monitor compliance of FIMS entries.
- The Plan updated their desk level procedure revising the scope, policy and procedure to define the new triage and quality review process for FIMS entry.

Recommendation 5

OPM recommended the contracting officer provide or issue guidance on the definitions of Fraud, Waste and Abuse, as well as "reasonable suspicion" in order for the Association and the local BCBSA plans to have consistent guidance on the expectations of OPM for reporting purposes.

BCBSA issued a revised FEP Fraud Waste and Abuse Program Standards Manual in December 2012 that includes the requirements of the FEHBP, industry standards, case sharing and reporting guidelines, as well as the annual reporting requirements of Carrier Letters 2003-23, 2003-25 and 2011-13. The FEPDO will continue to update this manual as needed based on guidance received from the contracting officer.

Recommendation 6

OPM recommended that the contracting officer direct the Association to provide OPM and the OIG full access to FIMS.

BCBSA continues to partially disagree with the recommendation to provide the OPM OIG full access to FIMS and BCBSA National Anti-Fraud Advisory Board (NAAB) meetings. FIMS is an internal management reporting system used by BCBSA and Local Plans to report Fraud, Waste and Abuse cases. Before cases can be accepted into FIMS, they must be reviewed and evaluated by BCBSA consultants, who then work with Local Plans to ensure the proper data elements are entered. As such, unlimited access by the OIG to the system at this time would result in potential inefficiencies for FEP. However, in order to provide the OPM OIG investigators with efficient, effective and faster access to cases, BCBSA initiated a process where BCBSA and OPM OIG staff meet on a monthly basis at the FEP Director's office to

[REDACTED]
November 22, 2013

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review case activity. Beginning in July 2013, the meeting location moved to the FEPOC, where we expect the meetings to continue.

We appreciate the opportunity to provide our response to this Draft Audit Report and request that our comments be included in their entirety as an amendment to the Final Audit Report.

Sincerely,

[REDACTED]
Managing Director, Program Assurance

lr/md

cc: Sylvia Pulley, Contracting Officer, OPM

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]