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

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# Final Audit Report

**AUDIT OF REGENCE  
PORTLAND, OREGON**

**Report Number 1A-10-69-14-012  
January 20, 2015**

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# EXECUTIVE SUMMARY

## *Audit of Regence*

Report No. 1A 10 69 14 012

January 20, 2015

### **Why did we conduct the audit?**

We conducted this limited scope audit to obtain reasonable assurance that Regence (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits (FEHBP) contract. The objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract.

### **What did we audit?**

We audited the FEHBP operations at Regence pertaining to the BlueCross and/or BlueShield (BCBS) plans of Idaho, Oregon, Utah, and Washington. Specifically, our audit covered miscellaneous health benefit payments and credits from 2010 through September 30, 2013, as well as administrative expenses from 2010 through 2012. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2010 through September 30, 2013 and the Plan's Fraud and Abuse (F&A) Program for 2013.



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

### **What did we find?**

We questioned \$1,066,072 in medical drug rebates, cash management activities, and lost investment income (LII). We also identified multiple procedural findings regarding the Plan's cash management activities and F&A Program. The BlueCross BlueShield Association and Plan agreed with \$1,029,469 and disagreed with \$36,603 of the questioned amounts, partially agreed with the procedural finding regarding the Plan's cash management activities, and generally disagreed with the procedural finding regarding the Plan's F&A Program.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$81,849 for medical drug rebates that had not been returned to the FEHBP as of September 30, 2013, and \$1,330 for LII on drug rebates returned untimely to the FEHBP.
- Administrative Expenses – The audit disclosed no findings pertaining to administrative expenses.
- Cash Management – We questioned \$915,296 in overcharges that were related to bank fees and special plan invoices and \$67,597 for applicable LII on these overcharges. We also determined that the Plan held excess corporate funds in the Federal Employee Program investment accounts for the Regence BCBS plans of Idaho, Oregon, Utah, and Washington.
- Fraud and Abuse Program – The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2011-13.

# ABBREVIATIONS

<b>Association</b>	<b>BlueCross BlueShield Association</b>
<b>BC</b>	<b>BlueCross</b>
<b>BCBS</b>	<b>BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield</b>
<b>BCBSA</b>	<b>BlueCross BlueShield Association</b>
<b>BS</b>	<b>BlueShield</b>
<b>CL</b>	<b>Carrier Letter</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>EFT</b>	<b>Electronic Funds Transfer</b>
<b>FAR</b>	<b>Federal Acquisition Regulations</b>
<b>FEHB</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>FEP</b>	<b>Federal Employees Program</b>
<b>FEPDO</b>	<b>Federal Employees Program Director's Office</b>
<b>F&amp;A</b>	<b>Fraud and Abuse</b>
<b>FIMS</b>	<b>Fraud Information Management System</b>
<b>FWA</b>	<b>Fraud, Waste, and Abuse</b>
<b>HIO</b>	<b>Healthcare and Insurance Office</b>
<b>LOCA</b>	<b>Letter of Credit Account</b>
<b>LII</b>	<b>Lost Investment Income</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OMB</b>	<b>U.S. Office of Management and Budget</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>OSA</b>	<b>Out-of-System Adjustment</b>
<b>Plan</b>	<b>Regence</b>
<b>PPA</b>	<b>Prior Period Adjustment</b>
<b>SIU</b>	<b>Special Investigations Unit</b>
<b>SPI</b>	<b>Special Plan Invoice</b>

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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 Regence (Plan), pertaining to the BlueCross (BC) and/or BlueShield (BS) plans of Idaho, Oregon, Utah, and Washington. The Plan's headquarters are located in Portland, Oregon.

The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

## **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 local BlueCross and/or BlueShield (BCBS) 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 BCBS plans throughout the United States to process the health benefit claims of its federal subscribers. Regence includes 4 of the 64 local BCBS plans participating in the FEHBP.

The Association has established a Federal Employee Program (FEP<sup>1</sup>) 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

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<sup>1</sup> 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.

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.

The following were the most recent audit reports issued for Regence pertaining to the BCBS plans of Idaho, Oregon, Utah, and Washington:

- Report No. 1A-10-43-01-089, Regence (BS of Idaho), dated September 19, 2001
- Report No. 1A-10-66-04-022, Regence (BCBS of Utah), dated June 7, 2004
- Report No. 1A-10-69-06-025, Regence (BS of Washington), dated January 3, 2007
- Report No. 1A-10-58-06-038, Regence (BCBS of Oregon), dated January 31, 2007

All findings from these previous audits of the Regence BCBS plans, covering various contract years from 1998 through 2004, were 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 on June 27, 2014; and were presented in detail in a draft report, dated August 12, 2014. 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 350/851 (BCBS of Oregon), 410/910 (BCBS of Utah), 611 (BS of Idaho), and 932 (BS of Washington) for contract years 2010 through 2012. During this period, the Plan paid approximately \$1.8 billion in health benefit charges and \$127 million in administrative expenses for these four BCBS plans (See Figure 1 and Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, provider offsets, subrogation recoveries, medical drug rebates, and fraud recoveries) and cash management activities from 2010 through September 30, 2013 for these four BCBS plans, as well as administrative expenses (e.g., pension and post-retirement benefit costs) from 2010 through 2012. We also reviewed the Plan's F&A Program activities and practices relating to BCBS of Oregon for 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.

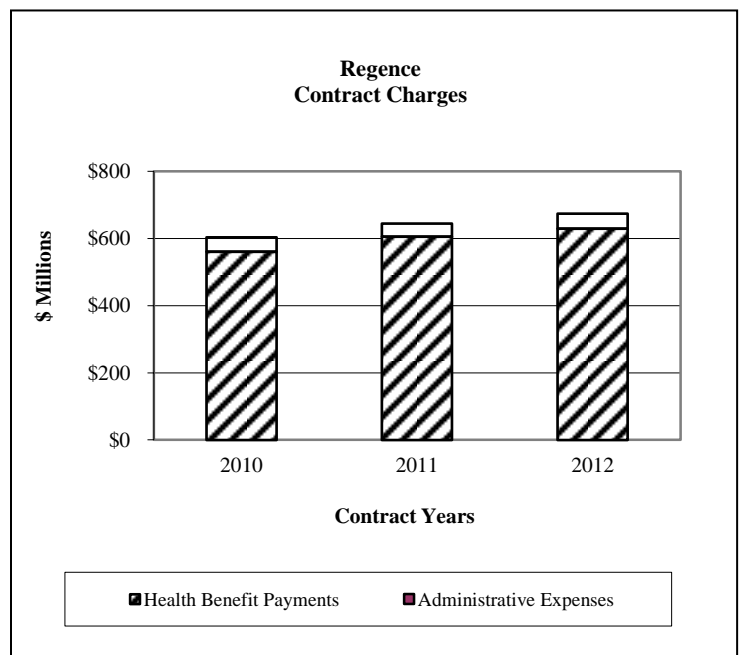


Figure 1 - Contract Charges

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 Portland, Oregon on various dates from March 11, 2014 through May 9, 2014. Audit fieldwork was also performed at our office in Jacksonville, Florida.

## **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. For the period 2010 through September 30, 2013, we also judgmentally selected and reviewed 143 high dollar health benefit refunds, totaling \$8,041,647 (from a universe of 45,471 refunds, totaling \$25,433,182); 16 high dollar provider offsets, totaling \$492,695 (from a universe of 19,197 offsets, totaling \$5,670,291); 29 high dollar subrogation recoveries, totaling \$1,349,675 (from a universe of 1,170 recoveries, totaling \$5,174,116); 44 high dollar hospital bill audit recoveries, totaling \$838,979 (from a universe of 1,328 recoveries, totaling \$2,198,943); all FEP medical drug rebate amounts, totaling \$662,323; 18 high dollar fraud recoveries, totaling \$297,271 (from a universe of 72 recoveries, totaling \$370,482); and 25 special plan invoices (SPI), totaling \$4,643,667 in net FEP payments (from a universe of 565 SPI's, totaling \$15,558,912 in net FEP payments), to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.<sup>2</sup> The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

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<sup>2</sup> The sample of health benefit refunds included the following selections from the Plan's "Miscellaneous Cash" files for the audit scope: all refunds greater than \$40,000 for the BCBS plans of Oregon and Utah from 2010, 2011, and 2013; all refunds greater than \$30,000 for BCBS of Oregon and greater than \$10,000 for BCBS of Utah from 2012; all refunds greater than \$10,000 for BS of Washington from 2010 through 2012 and greater than \$20,000 from 2013; and all refunds greater than \$1,500 for BS of Idaho from 2010 and 2011 and greater than \$1,000 from 2012 and 2013. The sample of health benefit refunds also included the following selections from the Plan's "Refund Account Transfer" files for 2010: all refunds greater than \$5,000 for the BCBS plans of Oregon and Utah and all refunds greater than \$1,000 for the BS plans of Idaho and Washington. From each year in the audit scope, the sample of provider offsets included a high dollar offset for each of the plans. For the sample of subrogation recoveries, we selected all recoveries of \$40,000 or more for the BCBS plans of Oregon and Utah, all recoveries of \$15,000 or more for BS of Washington, and all recoveries of \$3,000 or more for BS Idaho. For the sample of hospital bill audit recoveries, we selected all recoveries of \$10,000 or more for the BCBS plans of Oregon and Utah and all recoveries of \$1,500 or more for BS of Washington. For the sample of fraud recoveries, we selected all recoveries of \$5,000 or more for each of the plans. For the SPI sample, we judgmentally selected SPI's with high FEP payment and/or credit amounts for each of the plans.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2010 through 2012. Specifically, we only reviewed the Plan's administrative expenses relating to pension and post-retirement benefits for the Idaho, Oregon, Utah, and Washington plans; and gains from the sale of buildings by the Oregon and Washington plans. We used the FEHBP contract, the FAR, and the FEHBAR 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. Specifically, we reviewed the Plan's letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, and interest income transactions from 2010 through September 30, 2013, as well as the Plan's dedicated FEP investment account balances as of September 30, 2013 for the Idaho, Oregon, Utah, and Washington plans.

We also interviewed the Plan's Special Investigations Unit regarding the effectiveness of the F&A Program. For BCBS of Oregon, we also 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.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

### 1. Medical Drug Rebates

**\$83,179**

Our audit determined that the Plan had not returned medical drug rebates, totaling \$81,849, to the FEHBP as of September 30, 2013. The Plan returned these questioned medical drug rebates to the FEHBP on November 20, 2013, more than 60 days after receipt and after receiving our audit notification letter. Additionally, the Plan untimely returned medical drug rebates of \$270,241 to the FEHBP during the audit scope. As a result, we are questioning \$83,179 for this audit finding, consisting of \$81,849 for medical drug rebates and \$1,330 for LII on medical drug rebates returned untimely to the FEHBP.

48 CFR 31.201-5 states, “The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.”

Contract CS 1039, Part II, Section 2.3(i) states, “All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier.”

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16, states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

FAR 52.232-17(a) states, “all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

The Plan participates in a medical drug rebate program with the manufacturer of the [REDACTED] drug. The [REDACTED] drug rebates are determined based on medical claims processed for this drug, which is administered in a physician’s office. These drug rebates

are received multiple times a year (usually on a quarterly basis) by the Plan and credited to the participating groups, including the FEP. For the period January 1, 2010 through September 30, 2013, the Plan received 49 [REDACTED] drug rebate amounts, totaling \$8,667,931, for the Idaho, Oregon, Utah, and Washington plans. The Plan allocated \$662,323 of these medical drug rebate amounts to the FEP. We selected and reviewed all of the [REDACTED] drug rebate amounts that were allocated to the FEP, and specifically determined if the Plan properly allocated and timely returned these drug rebate amounts to the FEHBP.

The following summarizes the exceptions noted (itemized by BCBS plan):

- For BS of Washington, the Plan returned a medical drug rebate amount, totaling \$30,118, to the FEHBP on November 20, 2013. This was more than 60 days after receipt and after receiving our audit notification letter (dated October 1, 2013). Therefore, we are questioning this amount as a monetary finding. Additionally, the Plan returned four medical drug rebate amounts, totaling \$90,692, untimely to the FEHBP during the audit scope. In total, we are questioning \$30,604 for BS of Washington, consisting of \$30,118 for the rebate amount returned after our audit notification date and \$486 for LII on the rebate amounts returned untimely to the FEHBP.
- For BCBS of Utah, the Plan returned a medical drug rebate amount, totaling \$26,451, to the FEHBP on November 20, 2013. This was more than 60 days after receipt and after receiving our audit notification letter. Therefore, we are questioning this amount as a monetary finding. Additionally, the Plan returned four medical drug rebate amounts, totaling \$82,698, untimely to the FEHBP during the audit scope. In total, we are questioning \$26,872 for BCBS of Utah, consisting of \$26,451 for the rebate amount returned after our audit notification date and \$421 for LII on the rebate amounts returned untimely to the FEHBP.
- For BCBS of Oregon, the Plan returned a medical drug rebate amount, totaling \$23,095, to the FEHBP on November 20, 2013. This was more than 60 days after receipt and after receiving our audit notification letter. Therefore, we are questioning this amount as a monetary finding. Additionally, the Plan returned four medical drug rebate amounts, totaling \$94,982, untimely to the FEHBP during the audit scope. In total, we are questioning \$23,488 for BCBS of Oregon, consisting of \$23,095 for the rebate amount returned after our audit notification date and \$393 for LII on the rebate amounts returned untimely to the FEHBP.

- For BS of Idaho, the Plan returned a medical drug rebate amount, totaling \$2,185, to the FEHBP on November 20, 2013. This was more than 60 days after receipt and after receiving our audit notification letter. Therefore, we are questioning this amount as a monetary finding. Additionally, the Plan returned a medical drug rebate amount, totaling \$1,869, untimely to the FEHBP during the audit scope. In total, we are questioning \$2,215 for BS of Idaho, consisting of \$2,185 for the rebate amount returned after our audit notification date and \$30 for LII on the rebate amounts returned untimely to the FEHBP.

In total, we are questioning \$81,849 (\$30,118 plus \$26,451 plus \$23,095 plus \$2,185) for medical drug rebates returned to the FEHBP on November 20, 2013, more than 60 days after receipt and after receiving our audit notification letter. We are also questioning \$1,330 (\$486 plus \$421 plus \$393 plus \$30) for applicable LII on medical drug rebates returned untimely to the FEHBP.

### **Association's Response:**

In the draft report response, the Association only disagreed with the questioned LII of \$1,330. The Association states, "The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of October 21, 2011 any LII would have been satisfied by interest earned and already paid on a quarterly basis to the Program. Therefore, no LII is due the Program."

### **OIG Comments:**

We verified that interest earned on the Plan's corporate funds held in the dedicated FEP investment accounts was also returned to the FEHBP. Therefore, we offset the contested LII of \$1,330 against the interest earned and already returned to the FEHBP relating to the Plan's corporate funds.

### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$81,849 to the FEHBP for the questioned medical drug rebates. Since we verified that the Plan returned \$81,849 to the FEHBP for the questioned drug rebates, no further action is required for this amount.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$1,330 to the FEHBP for LII calculated on medical drug rebates that were returned untimely to the FEHBP. However, since we were able to offset the questioned LII of \$1,330 against the interest earned on the Plan’s corporate funds that were held in the dedicated FEP investment accounts, no further action is required for this LII amount.

**B. ADMINISTRATIVE EXPENSES**

We reviewed the Plan’s administrative expenses relating to pension and post-retirement benefits for the Idaho, Oregon, Utah, and Washington plans, and gains from the sale of buildings by the Oregon and Washington plans. The audit disclosed no findings pertaining to these administrative expenses.

**C. CASH MANAGEMENT**

**1. Duplicate Bank Fees \$546,721**

The Plan inadvertently charged \$507,922 in bank fees to the FEHBP twice. The Plan withdrew these bank fees from the dedicated FEP investment accounts and also charged these fees to the FEHBP as administrative expenses, resulting in duplicate charges to the FEHBP. As a result of our audit, the Plan returned these duplicate bank fee charges to the FEHBP. In total, we are questioning \$546,721 for this audit finding, consisting of \$507,922 for duplicate bank fee charges and \$38,799 for applicable LII on these duplicate charges.

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.”

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16, states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were identified and corrected (i.e., . . . overcharges . . . were already processed and returned to the FEHBP) prior to audit notification.”

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

While preparing for the audit and responding to our standard information request (SIR) (dated October 1, 2013 and covering a scope of 2010 through September 30, 2013), the Plan identified bank fees of \$122,698 and \$189,317 that were inadvertently charged twice to the FEHBP in 2010 and 2011, respectively, for the Idaho, Oregon, and Utah plans. Based on the Plan's analysis, these duplicate charges occurred on December 20, 2010 and December 30, 2011. Due to the materiality of these duplicate bank fee charges, we expanded our audit scope for this specific error to also include 2008 and 2009. As a result, the Plan identified additional duplicate bank fee charges of \$66,457 for 2008 and \$129,450 for 2009.

**In total, Regence overcharged the FEHBP \$507,922 for bank fees from 2008 through 2011.**

In total, the Plan overcharged the FEHBP \$507,922 (\$66,457 plus \$129,450 plus \$122,698 plus \$189,317) for bank fees from 2008 through 2011 for the Idaho, Oregon, and Utah plans.<sup>3</sup> The Plan calculated LII of \$38,799 on these bank fee overcharges. We reviewed and accepted the Plan's calculated LII amounts for the Idaho, Oregon, and Utah plans.

The following summarizes the exceptions noted (itemized by BCBS plan):

- For BCBS of Oregon, the Plan charged bank fees, totaling \$284,995, to the FEHBP twice from 2008 through 2011. As result of our audit, the Plan returned these questioned duplicate charges to the FEHBP on April 9, 2014 and May 16, 2014. In total, the Plan returned \$306,122 to the FEHBP for the Oregon plan, consisting of \$284,995 for the duplicate bank fee charges and \$21,127 for applicable LII.
- For BCBS of Utah, the Plan charged bank fees, totaling \$195,346, to the FEHBP twice from 2008 through 2011. As result of our audit, the Plan returned these questioned duplicate charges to the FEHBP on April 9, 2014 and May 16, 2014. In total, the Plan returned \$211,103 to the FEHBP for the Utah plan, consisting of \$195,346 for the duplicate bank fee charges and \$15,757 for applicable LII.
- For BS of Idaho, the Plan charged bank fees, totaling \$27,581, to the FEHBP twice from 2008 through 2011. As result of our audit, the Plan returned these questioned duplicate charges to the FEHBP on March 3, 2014 and May 16, 2014. In total, the Plan returned \$29,496 to the FEHBP for the Idaho plan, consisting of \$27,581 for the duplicate bank fee charges and \$1,915 for applicable LII.

<sup>3</sup> We verified that the Plan did not charge duplicate bank fees in 2012 and 2013 for the Idaho, Oregon, and Utah plans. We also verified that the Plan did not charge duplicate bank fees to the FEHBP for the Washington plan.

In total, the Plan returned \$546,721 to the FEHBP, consisting of \$507,922 for the duplicate bank fee charges and \$38,799 for applicable LII on these duplicate charges.

**Association's Response:**

In the draft report response, the Association disagreed with \$35,273 of the questioned LII. The Association states, "The Plan partially disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of October 21, 2011, LII of \$35,273 would have been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. However, the Plan agrees to pay \$3,526.32 in applicable lost investment income (LII), which was not satisfied by the excess funds in the FEP Investment Account as of October 21, 2011. A Special Plan Invoice totaling \$3,526.32 was submitted to the FEP Director's Office on October 1, 2014 and the funds were wired to BCBSA on October 8, 2014."

**OIG Comments:**

The Plan provided documentation supporting that the duplicate bank fee charges, totaling \$507,922, were returned to the FEHBP through multiple deposits into the FEP investment accounts from March 3, 2014 through May 16, 2014.

Regarding the contested LII amount, we verified that interest earned on the Plan's corporate funds held in the FEP investment accounts was also returned to the FEHBP. Therefore, we offset the contested LII of \$35,273 against the remaining balance of interest earned and already returned to the FEHBP relating to the Plan's corporate funds.

For the uncontested LII, we verified that the Plan wire transferred \$3,526 to the Association's FEP joint operating account on October 8, 2014. The Association then wire transferred this LII amount to OPM on October 15, 2014.

**Recommendation 3**

We recommend that the contracting officer disallow \$507,922 for the duplicate bank fee charges from 2008 through 2011. Since we verified that the Plan returned \$507,922 to the FEHBP for the questioned duplicate bank fee charges, no further action is required for this amount.



#### **Recommendation 4**

We recommend that the contracting officer require the Plan to return \$38,799 to the FEHBP for LII on the duplicate bank fee charges. However, since we were able to offset the contested LII of \$35,273 against the interest earned on the Plan's corporate funds that were held in the dedicated FEP investment accounts, no further action is required for this contested LII amount. Since we also verified that the Plan returned \$3,526 to the FEHBP for the uncontested LII on the duplicated bank fee charges, no further action is required for this LII amount.

#### **2. Special Plan Invoices **\$436,172****

As of September 30, 2013, the Plan had not deposited \$407,374 into the FEP investment accounts for several credit amounts reported on SPI's in 2010. As a result of our audit, the Plan returned \$436,172 to the FEHBP, consisting of \$407,374 for the SPI credit amounts not previously deposited into the FEP investment accounts and \$28,798 for applicable LII on these funds.

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

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16, states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were identified and corrected . . . prior to audit notification."

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

While preparing for the audit and responding to our SIR (dated October 1, 2013), the Plan identified several SPI credit amounts, totaling \$407,374, where the Plan inadvertently had not deposited the funds into the FEP investment accounts. These credit amounts were for prior period adjustments (PPA) and interim administrative cost settlements reported on SPI's processed in 2010. We verified that these funds were actually returned to the LOCA via multiple drawdown adjustments from March 1, 2010 through April 14, 2014, but not deposited into the Plan's dedicated FEP investment accounts.

As a result of this audit finding, the Plan also calculated LII of \$28,798 on these questioned SPI credit amounts. We reviewed and accepted the Plan's calculated LII amounts for the Idaho, Oregon, Utah, and Washington plans.

The following summarizes the exceptions noted (itemized by BCBS plan):

- For BCBS of Utah, the Plan had not deposited \$243,924 into the FEP investment account for credit amounts reported on four SPI's in 2010. These SPI's included three PPA's (\$160,644) and one interim administrative cost settlement (\$83,280). As a result of our audit, the Plan deposited these funds into the FEP investment account on April 9, 2014 and April 17, 2014. In total, the Plan returned \$261,425 to the FEHBP for the Utah plan, consisting of \$243,924 for the questioned SPI amounts and \$17,501 for applicable LII.
- For BCBS of Oregon, the Plan had not deposited \$95,833 into the FEP investment account for credit amounts reported on two SPI's in 2010. These SPI's included PPA's to credit the FEHBP for overcharges because 2008 managed care rates were incorrectly used to calculate the 2009 managed care expenses. As a result of our audit, the Plan deposited these funds into the FEP investment account on April 17, 2014. In total, the Plan returned \$102,079 to the FEHBP for the Oregon plan, consisting of \$95,833 for the questioned SPI amounts and \$6,246 for applicable LII.
- For BS of Idaho, the Plan had not deposited \$36,345 into the FEP investment account for credit amounts reported on two SPI's in 2010. These SPI's were for interim administrative cost settlements to credit the FEHBP \$36,345 because the year-end filed costs for 2009 were less than the approved budget costs. As a result of our audit, the Plan deposited these funds into the FEP investment account on March 3, 2014. In total, the Plan returned \$39,420 to the FEHBP for the Idaho plan, consisting of \$36,345 for the questioned SPI amounts and \$3,075 for applicable LII.
- For BS of Washington, the Plan had not deposited \$31,272 into the FEP investment account for a credit amount reported on an SPI in 2010. The SPI included a PPA to credit an overcharge to the FEHBP for Preferred Provider Organization directories. As a result of our audit, the Plan deposited these funds into the FEP investment account on April 17, 2014. In total, the Plan returned \$33,248 to the FEHBP for the Washington plan, consisting of \$31,272 for the questioned SPI amount and \$1,976 for applicable LII.

In total, the Plan returned \$436,172 to the FEHBP for this audit finding, consisting of \$407,374 for the questioned SPI amounts and \$28,798 for LII on these funds.

**Association's Response:**

Regarding the questioned LII, the Association states that the Plan submitted an SPI to the FEP Director's Office on October 1, 2014 and then wire transferred the funds to the Association's FEP joint operating account on October 8, 2014.

**OIG Comments:**

The Plan provided documentation supporting that the questioned SPI amounts, totaling \$407,374, were returned to the FEHBP through multiple deposits into the FEP investment accounts from March 3, 2014 through April 17, 2014. Also, we verified that the Plan wire transferred LII of \$28,798 to the Association's FEP joint operating account on October 8, 2014 and the Association then wired transferred this LII amount to OPM on October 15, 2014.

**Recommendation 5**

We recommend that the contracting officer require the Plan to return \$407,374 to the FEHBP for the questioned SPI credit amounts. Since we verified that the Plan returned \$407,374 to the FEHBP for these questioned SPI amounts, no further action is required for this amount.

**Recommendation 6**

We recommend that the contracting officer require the Plan to return \$28,798 to the FEHBP for LII on the questioned SPI credit amounts. Since we verified that the Plan returned \$28,798 to the FEHBP for LII on these questioned SPI amounts, no further action is required for this LII amount.

**3. Excess Funds in the Federal Employee Program Investment Accounts      Procedural**

Our audit determined that the Plan held excess funds in the FEP investment accounts for the Oregon, Utah, Idaho, and Washington plans. Specifically, the Plan held a total of \$8,327,444 in corporate funds in these dedicated FEP investment accounts as of September 30, 2013. Most of these corporate funds were transferred into the Plan's dedicated FEP investment accounts in October 2011.

48 CFR 1632.771 (c) states, "FEHBP funds shall be maintained separately from other cash and investments of the carrier or underwriter."

Contract CS 1039, Part III, Section 3.5 (a) states, “The Carrier and/or its underwriter shall keep all FEHBP funds for this contract (cash and investments) physically separate from funds obtained from other sources.”

The Plan’s FEP investment accounts generally include FEP working capital funds, approved LOCA drawdowns, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash identified as due to the FEP. Based on Contract CS 1039, all funds deposited into the FEP investment account, such as health benefit refunds, interest income and excess working capital, should be returned to the FEHBP by adjusting the LOCA within 60 days after receipt by the BCBS plan. Also, approved reimbursements from the LOCA and/or FEP Director’s Office that are deposited into the FEP investment account should be timely transferred from the FEP investment account to the Plan’s corporate account.

**Regence held over \$8.3 million in corporate funds in the Plan’s dedicated FEP investment accounts.**

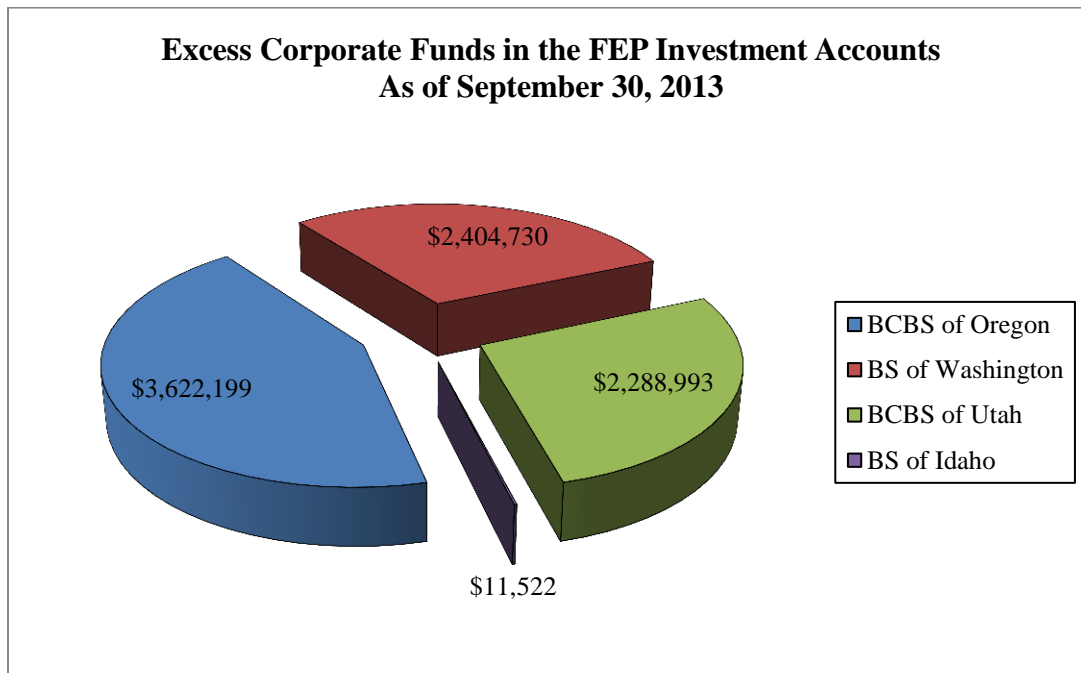
In our SIR (dated October 1, 2013), we requested the Plan to provide detailed itemizations of the funds in the dedicated FEP investment accounts as of September 30, 2013 for the Idaho, Oregon, Utah, and Washington plans. Based on our review of these itemizations, we determined that the Plan held a total of \$8,327,444 in corporate funds in these FEP investment accounts as of September 30, 2013.

Most of these corporate funds had been held in the Plan’s dedicated FEP investment accounts for nearly two years (as of September 30, 2013).

The following summarizes the exceptions noted (itemized by BCBS plan):

- For BCBS of Oregon, the Plan held corporate funds of \$3,622,199 in the FEP investment account as of September 30, 2013. Most of these funds (\$3,015,541) represented an approved reimbursement transaction for pension costs that were deposited into the FEP investment account on October 25, 2011. There were also several SPI payment reimbursements (\$606,658) remaining in the account.
- For BS of Washington, the Plan held corporate funds of \$2,404,730 in the FEP investment account as of September 30, 2013. Most of these funds (\$2,142,610) represented an approved reimbursement transaction for pension costs that were deposited into the FEP investment account on October 25, 2011. There were also several SPI payment reimbursements (\$262,120) remaining in the account.

- For BCBS of Utah, the Plan held corporate funds of \$2,288,993 in the FEP investment account as of September 30, 2013. Most of these funds (\$2,102,688) represented an approved reimbursement transaction for pension costs that were deposited into the FEP investment account on October 25, 2011. There were also several SPI payment reimbursements (\$186,305) remaining in the account.
- For BS of Idaho, the Plan held corporate funds of \$11,522 in the FEP investment account as of September 30, 2013. These funds represented an approved reimbursement transaction for pension costs that were deposited into the FEP investment account on October 25, 2011.



In total, nearly \$7.3 million of the excess corporate funds in the FEP investment accounts (as of September 30, 2013) were for approved pension cost reimbursements that were deposited into these FEP accounts on October 25, 2011 (almost two years prior). Also, approximately \$1.1 million of the excess corporate funds in the FEP investment accounts were for SPI payment reimbursements remaining in the accounts.

**Association’s Response:**

The Association states, “The Plan continues to partially agree with this finding. Internal controls are being strengthened to ensure timely transfers in compliance with 48 CFR 1632.771 (c) and that the Plan is on target to fully implement these additional controls by November 30, 2014.”

The Association also states, “The Plan disagrees that FEHBP funds were not properly managed in compliance with Contract CS 1039, Part III, Section 3.5(a). It is customary for FEHBP related operating expenses to be initially paid for using corporate funds. The FEHBP authorized deposits to reimburse those corporate funds were properly deposited into the FEP investment accounts, as it was for the deposits noted above. Regence has properly managed funds by segregating FEHBP and non-FEHBP sourced deposits into the correct separately established bank accounts. In addition, Regence maintained adequate controls to identify the corporate funds in order to accurately determine the FEHBP cash balance at any given time.”

**OIG Comments:**

After reviewing the Association’s draft report response, we revised the audit finding from the draft report to exclude the statement that the Plan is not properly managing the FEHBP funds in the Plan’s dedicated FEP investment accounts for the Idaho, Oregon, Utah, and Washington plans. However, as a cash management “best” practice, the Plan should timely transfer all excess corporate funds (such as approved LOCA drawdown reimbursements) from the FEP investment accounts to the Plan’s corporate account. The Plan should not maintain excess corporate (non-FEHBP) or FEHBP funds in the dedicated FEP investment accounts.

**Recommendation 7**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions to improve its internal controls over the dedicated FEP investment accounts. Also, the contracting officer should require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that only necessary funds are maintained in the FEP investment accounts, and corporate funds (such as approved LOCA drawdown reimbursements) are timely transferred to the Plan’s corporate account.

**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 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 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.

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.

We reviewed the Plan's Special Investigations Unit pertaining to BCBS of Oregon. During the period January 1, 2013 through December 31, 2013, BCBS of Oregon opened 11 fraud and abuse cases that were identified as having FEP exposure. We reviewed these 11 cases with FEP exposure to determine if the cases were reported to the OIG as required by CL 2011-13. Based on our review, we determined that notifications for only 2 of the 11 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.

The Plan's non-compliance with the communication and reporting requirements in 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).<sup>4</sup>

**The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases.**

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 11 cases with FEP exposure during the period January 2013 through December 2013, we determined that 9 cases (82 percent) were entered into FIMS timely and 2 cases (18 percent) were entered into FIMS untimely. Without timely FIMS case entries by the Plan, the FEPDO's SIU cannot meet the FEHBP's contractual communication and reporting requirements.

<sup>4</sup> FIMS is a multi-user, web-based case-tracking database that the FEPDO's SIU developed in-house.

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 applicable entities of these cases have resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2011-13. The lack of notifications 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.

**Association's Response:**

The Association states, "The Plan and BCBSA continue to disagree with the statement that the Plan is not in compliance with the communication and reporting requirements set forth in Contract CS 1039 and . . . Carrier letter (CL) 2011-13." The Association also disagrees that controls for the Plan's FIMS entries are inadequate.

The Association states, "The FEPDO and the Plan have created a system of controls to monitor, identify, investigate and recover fraudulent and abusive payments of FEHBP funds and is substantially in compliance with the requirements of CS 1039. Further, the Plan's FEP Fraud and Abuse Program is designed to protect patient safety and the health care assets of Federal beneficiaries."

**OIG Comments:**

Our review concluded that timeliness issues were in fact present regarding the communication and reporting of fraud and abuse cases to the FEPDO's SIU (via FIMS) and to the OIG (via official notification). The Plan and Association are both responsible for working together to meet the contractual requirements set forth in Contract CS 1039 and Carrier Letter 2011-13.

*Note: In addition to the recommendations below, we also included the following recommendation in our draft audit report: "We recommend that the contracting officer direct the Association and/or Plan to provide OPM and the OIG an explanation and supporting documentation for each of the 9 cases (9 cases entered into FIMS timely plus 2 cases were entered into FIMS untimely minus 2 cases reported to the OIG) that were entered into FIMS but not reported to the OIG. We also recommend that the contracting officer review the explanation and supporting documentation for each of these cases, and determine if these cases meet the communication and reporting requirements."*



*The Association addressed this recommendation and provided documentation in response to our draft audit report. However, we will evaluate the Association's response to this recommendation during our current audit of the "Fraud and Abuse Case Reporting Process at the BlueCross BlueShield Association" (Report No. 1A-99-00-14-069) and report on the results accordingly.*

### **Recommendation 8**

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 contained in 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 agrees with this recommendation and states, "BCBSA will work with the Plan to confirm that the Plan's FEP Fraud Waste and Abuse activities remain in compliance with FEP Program requirements. BCBSA will work with the Plan to make changes as necessary if any process gaps are identified. BCBSA expects to complete this process by November 30, 2014.

BCBSA currently provides oversight to the Plan to ensure that entries into FIMS are timely and complete, and expects to continue to do so in the future."

## IV. MAJOR CONTRIBUTORS TO THIS REPORT

### Experience-Rated Audits Group

██████████, Lead Auditor

██████████, Auditor

██████████, Auditor

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██████████, Chief ██████████

██████████, Senior Team Leader

**V. SCHEDULES**

**SCHEDULE A**

**REGENCE  
PORTLAND, OREGON**

**CONTRACT CHARGES**

<b>CONTRACT CHARGES*</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>TOTAL</b>
<b>A. HEALTH BENEFIT CHARGES**</b>				
CLAIM PAYMENTS	\$551,855,421	\$602,470,192	\$628,318,631	\$1,782,644,244
MISCELLANEOUS PAYMENTS AND CREDITS	8,814,664	3,791,405	1,660,844	14,266,913
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$560,670,085</b>	<b>\$606,261,597</b>	<b>\$629,979,475</b>	<b>\$1,796,911,157</b>
<b>B. ADMINISTRATIVE EXPENSES**</b>				
ADMINISTRATIVE CHARGES	\$45,075,847	\$39,313,433	\$44,648,549	\$129,037,829
PRIOR PERIOD ADJUSTMENTS	(127,105)	7,324,162	113,449	7,310,506
BUDGET SETTLEMENT REDUCTION	(1,205,580)	(8,379,646)	0	(9,585,226)
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$43,743,162</b>	<b>\$38,257,949</b>	<b>\$44,761,998</b>	<b>\$126,763,109</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$604,413,247</b>	<b>\$644,519,546</b>	<b>\$674,741,473</b>	<b>\$1,923,674,266</b>

\* This audit covered miscellaneous health benefit payments and credits and cash management activities from 2010 through September 30, 2013 and administrative expenses from 2010 through 2012.

\*\* The health benefit charges and administrative expenses include all amounts reported in the Annual Accounting Statements for the Regence plan codes 350/851 (Oregon), 410/910 (Utah), 611 (Idaho), and 932 (Washington).

**SCHEDULE B**

**REGENCE  
PORTLAND, OREGON  
QUESTIONED CHARGES**

<b>AUDIT FINDINGS</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>TOTAL</b>
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>						
1. Medical Drug Rebates**	\$0	\$0	\$82,050	\$1,129	\$0	\$83,179
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$82,050</b>	<b>\$1,129</b>	<b>\$0</b>	<b>\$83,179</b>
<b>B. ADMINISTRATIVE EXPENSES</b>						
	\$0	\$0	\$0	\$0	\$0	\$0
<b>C. CASH MANAGEMENT</b>						
1. Duplicate Bank Fees*	\$318,605	\$189,317	\$0	\$0	\$38,799	\$546,721
2. Special Plan Invoices**	407,374	0	0	0	28,798	436,172
3. Excess Funds in the FEP Investment Accounts (Procedural)	0	0	0	0	0	0
<b>TOTAL CASH MANAGEMENT</b>	<b>\$725,979</b>	<b>\$189,317</b>	<b>\$0</b>	<b>\$0</b>	<b>\$67,597</b>	<b>\$982,893</b>
<b>D. FRAUD AND ABUSE PROGRAM</b>						
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL FRAUD AND ABUSE PROGRAM</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$725,979</b>	<b>\$189,317</b>	<b>\$82,050</b>	<b>\$1,129</b>	<b>\$67,597</b>	<b>\$1,066,072</b>

\* For 2010, we included the questioned bank fees for 2008, 2009, and 2010. For 2014, we included lost investment income (LII) of \$38,799 calculated on the questioned bank fees. Therefore, no additional LII is applicable for this audit finding.

\*\* We included LII within audit findings A1 (\$1,330) and C2 (\$28,798). Therefore, no additional LII is applicable for these audit findings.



**BlueCross BlueShield Association**

An Association of Independent Blue Cross and Blue Shield Plans  
Federal Employee Program  
1310 G Street, N.W.  
Washington, D.C. 20005  
202.942.1000  
Fax 202.942.1125

October 14, 2014

[REDACTED], 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  
Regence  
Audit Report No. 1 A-10-69-14-012  
(Dated August 12, 2014 and Received August 12, 2014)**

Dear [REDACTED]:

This is Regence Plan's (Plan) response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). The Blue Cross and Blue Shield Association (BCBSA) and the Plan are committed to enhancing 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**

**1. Medical Drug Rebates \$83,179**

**Recommendation 1**

Since we verified that the Plan returned \$81,849 to the FEHBP for the questioned drug rebate amount, no further action is required for this amount.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$1,330 to the FEHBP for LII on medical drug rebates returned untimely.

**Plan Response**

The Plan disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of October 21, 2011 any LII would have been

satisfied by interest earned and already paid on a quarterly basis to the Program. Therefore, no LII is due the Program.

## **B. ADMINISTRATIVE EXPENSES**

The audit disclosed no findings pertaining to administrative expenses. Overall, we concluded that the Plan's 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.

## **C. CASH MANAGEMENT**

### **1. Duplicate Bank Fees**

**\$ 546,721**

#### **Recommendation 3**

Since we verified that the Plan returned \$507,922 to the FEHBP for the questioned duplicate bank fees, no further action is required for this questioned amount.

#### **Recommendation 4**

We recommend that the contracting officer require the Plan to return \$38,799 to the FEHBP for LII on the questioned bank fees.

#### **Plan response**

The Plan partially disagrees with the recommendation. Due to excess funds in the FEP Investment Account as of October 21, 2011, LII of \$35,273 would have been satisfied by interest earned and already paid to the FEP Program on a quarterly basis. However, the Plan agrees to pay \$3,526.32 in applicable lost investment income (LII), which was not satisfied by the excess funds in the FEP Investment Account as of October 21, 2011. A Special Plan Invoice totaling \$3,526.32 was submitted to the FEP Director's Office on October 1, 2014 and the funds were wired to BCBSA on October 8, 2014. A copy of the completed Special Plan Invoice and evidence that the funds were wired to BCBSA to be returned to the Program are attached.

**2. Special Plan Invoices**

**\$ 436.172**

**Recommendation 5**

Since we verified that the Plan returned \$407,374 to the FEHBP for the questioned special plan invoices, no further action is required for this questioned amount.

**Recommendation 6**

We recommend that the contracting officer require the Plan to return \$28,798 to the FEHBP for LII on the questioned special plan invoices

**Plan Response**

The Plan agrees with this recommendation. A Special Plan Invoice totaling \$29,798 was submitted to the FEP Director's Office on October 1, 2014 and the funds were wired to BCBSA on October 8, 2014. A copy of the completed Special Plan Invoice and evidence that the funds were wired to BCBSA to be returned to the Program are attached.

**3. Excess Funds in the FEP Investment Account**

**Procedural**

**Recommendation 7**

We recommend that the contracting office verify if the Plan has implemented procedures to improve its internal controls over FEHBP funds.

**Plan Response**

The Plan continues to partially agree with this finding. The Plan stated that internal controls are being strengthened to ensure timely transfers in compliance with 48 CFR 1632.771(c) and that the Plan is on target to fully implement these additional controls by November 30, 2014.

However, the Plan disagrees that FEHBP funds were not properly managed in compliance with Contract CS 1039, Part III, Section 3.5(a). It is customary for FEHBP related operating expenses to be initially paid for using corporate funds. The FEHBP authorized deposits to reimburse those corporate funds were properly deposited to the FEP investment accounts, as it was for the deposits noted above. Regence has properly managed funds by segregating FEHBP and non-FEHBP sourced deposits into the correct separately established bank accounts. In addition, Regence maintained adequate controls to identify the corporate funds in order to accurately determine the FEHBP cash balance at any given time."

## **D. FRAUD AND ABUSE PROGRAM**

### **Procedural**

#### **1. Special Investigations Unit**

The Plan and BCBSA continue to disagree with the statement that the Plan is not in compliance with the communication and reporting requirements set forth in Contract CS 1039 and the Federal Employee Health Benefit Program (FEHBP) Carrier Letter (CL) 2011-13. BCBSA also disagrees that controls regarding Plans FIMS entries are inadequate.

The FEPDO and the Plan have created a system of controls to monitor, identify, investigate and recover fraudulent and abusive payments of FEHBP funds and is substantially in compliance with the requirements of CS 1039. Further, the Plan's FEP Fraud and Abuse Program is designed to protect patient safety and the health care assets of Federal beneficiaries.

#### **Recommendation 8**

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 contained in 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.

#### **BCBSA Response**

BCBSA agrees with this recommendation. BCBSA will work with the Plan to confirm that the Plan's FEP Fraud Waste and Abuse activities remain in compliance with FEP Program requirements. BCBSA will work with the Plan to make changes as necessary if any process gaps are identified. BCBSA expects to complete this activity by November 30, 2014.

BCBSA currently provides oversight to the Plan to ensure that entries into FIMS are timely and complete, and expects to continue to do so in the future.

**Deleted by the Office of the Inspector General - Not Relevant to the Final Report**



**Deleted by the Office of the Inspector General - Not Relevant to the Final Report**

**Deleted by the Office of the Inspector General - Not Relevant to the Final Report**

Regence Plan  
Draft Report Response  
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Thank you for this opportunity to provide an update on recommendations included in this report. If you have any questions, please contact me at [REDACTED].

Sincerely,

[REDACTED]

[REDACTED], CISA  
Managing Director, Program Assurance

Attachments

cc: [REDACTED], Regence  
[REDACTED], FEP  
[REDACTED], FEP



## **Report Fraud, Waste, and Mismanagement**

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**By Mail:** Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, NW  
Room 6400  
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-- CAUTION --

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