



---

---

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

---

---

# Final Audit Report

**AUDIT OF  
BLUECROSS BLUESHIELD OF MINNESOTA  
EAGAN, MINNESOTA**

**Report Number 1A-10-78-15-040  
February 16, 2016**

**-- 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 that 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 (<http://www.opm.gov/our-inspector-general>), caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

# EXECUTIVE SUMMARY

## Audit of BlueCross BlueShield of Minnesota

Report No. 1A-10-78-15-040

February 16, 2016

### Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Minnesota (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 Program (FEHBP) contract.

Specifically, 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?

Our audit covered miscellaneous health benefit payments and credits from 2010 through September 30, 2014, as well as administrative expenses from 2009 through 2013, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2010 through September 30, 2014, and the Plan's Fraud and Abuse (F&A) Program from January 1, 2014 through September 30, 2014.



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

### What did we find?

We questioned \$227,123 in health benefit refunds and recoveries, medical drug rebates, and lost investment income (LII). We also identified a procedural finding regarding the Plan's F&A Program. The BlueCross BlueShield Association (Association) and Plan agreed with all of the questioned amounts as well as 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 \$208,342 for health benefit refunds and recoveries and medical drug rebates that had not been returned to the FEHBP and \$18,781 for applicable LII. We verified that the Plan has returned these questioned amounts to the FEHBP.
- Administrative Expenses – The audit disclosed no findings for administrative expenses. Overall, we determined that the Plan's administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with Contract CS 1039 and applicable laws and regulations.
- Cash Management – The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.
- Fraud and Abuse Program – The Association and Plan are *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>BCBS</b>	<b>BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield</b>
<b>CL</b>	<b>Carrier Letter</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>Contract</b>	<b>Contract CS 1039</b>
<b>DDE</b>	<b>Direct Data Entry</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>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>OPM</b>	<b>Office of Personnel Management</b>
<b>Plan</b>	<b>BlueCross BlueShield of Minnesota</b>
<b>SIU</b>	<b>Special Investigations Unit</b>
<b>SPI</b>	<b>Special Plan Invoice</b>

# TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY .....	i
ABBREVIATIONS .....	ii
I. BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	8
A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u> .....	8
1. Health Benefit Refunds and Recoveries .....	8
2. Medical Drug Rebates.....	10
B. <u>ADMINISTRATIVE EXPENSES</u> .....	12
C. <u>CASH MANAGEMENT</u> .....	12
D. <u>FRAUD AND ABUSE PROGRAM</u> .....	12
1. Special Investigations Unit .....	12
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	15
V. SCHEDULE A – QUESTIONED CHARGES	
APPENDIX (BlueCross BlueShield Association’s Draft Report Response, dated November 30, 2015)	
REPORT FRAUD, WASTE, AND MISMANAGEMENT	

# I. BACKGROUND

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 Minnesota (Plan). The Plan is located in Eagan, Minnesota.

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.

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 (contract or 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. The Plan is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

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 BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BCBS, located in Owings Mills, Maryland and Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf of BCBS plans, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits),

---

<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.

maintaining a history file of all FEHBP claims, and maintaining claims payment data and related financial data in support of the Association's accounting of all program funds.

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

All findings from our previous audit of the Plan (Report No. 1A-10-78-10-002, dated March 30, 2010), for contract years 2004 through 2008, 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 on September 9, 2015; and were presented in detail in a draft report, dated September 30, 2015. 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 timely 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.

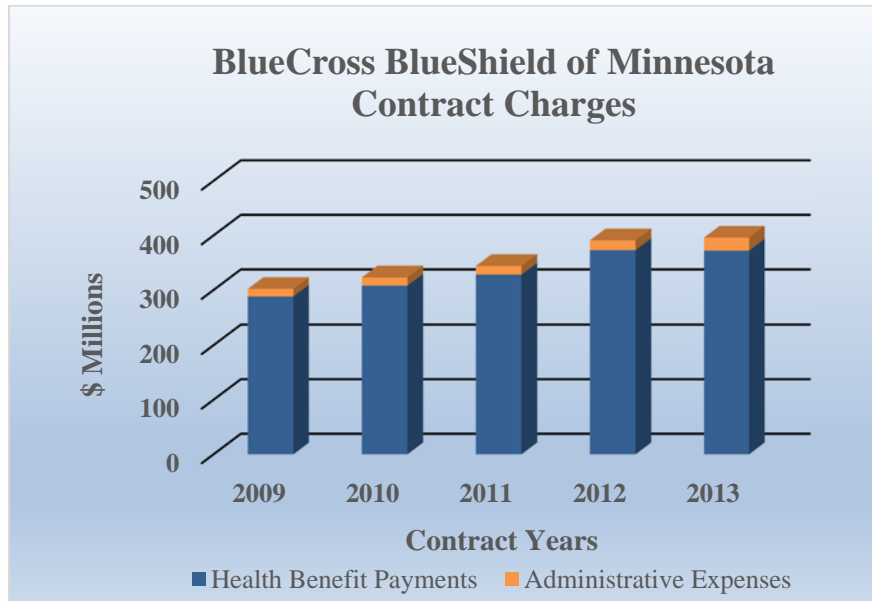
#### Fraud and Abuse Program

- 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 220 and 720 for contract years 2009 through 2013. During this period, the Plan paid approximately \$1.7 billion in FEHBP health benefit payments and charged the FEHBP \$87.5 million in administrative expenses.



Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, provider audit recoveries, medical drug rebates, and special plan invoices) and cash management activities from 2010 through September 30, 2014, as well as administrative expenses from 2009 through 2013. We also reviewed the Plan’s Fraud and Abuse (F&A) Program activities and practices from January 1, 2014 through September 30, 2014.

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.

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, 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 Eagan, Minnesota from June 2, 2015 through June 26, 2015. Audit fieldwork was also performed at our office in Cranberry Township, Pennsylvania through September 9, 2015.

## **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, 2014, we also judgmentally or statistically selected and reviewed the following items:

### *Health Benefit Refunds*

- A high dollar sample of 40 FEP health benefit refunds returned via auto recoupments, totaling \$7,652,515, and a statistical sample of 72 FEP refunds returned via auto recoupments, totaling \$1,994,640 (from a universe of 73,800 FEP refunds returned via auto recoupments, totaling \$71,171,704). Our high dollar sample included all auto recoupments of \$125,000 or more and our statistical sample included auto recoupments selected from a stratification of amounts greater than \$500 but less than \$125,000.
- A high dollar sample of 39 FEP health benefit refund cash receipts, totaling \$4,778,302, and a statistical sample of 72 FEP refund receipts, totaling \$1,002,775 (from a universe of 15,450 FEP refund receipt amounts, totaling \$15,044,133). Our high dollar sample included all refund receipt amounts of \$50,000 or more and our statistical sample included refunds selected from a stratification of receipt amounts greater than \$250 but less than \$50,000.

- 20 high dollar direct data entry (DDE) health benefit refunds, totaling \$314,737, from a universe of 2,207 DDE refunds, totaling \$840,772. For this sample, we selected all DDE refunds of \$8,000 or more.

Other Health Benefit Payments, Credits, and Recoveries

- 23 high dollar provider audit recoveries, totaling \$1,363,738, from a universe of 3,103 recoveries, totaling \$5,340,619. For this sample, we selected all provider audit recoveries of \$30,000 or more.
- All ■■■ FEP medical drug rebate amounts, totaling \$■■■■■.
- 16 high dollar special plan invoices (SPI), totaling \$9,062,466 in net FEP payments, from a universe of 153 SPI's, totaling \$9,634,167 in net FEP payments. We selected these SPI's based on our nomenclature review of high dollar invoice amounts.
- 10 provider settlements, totaling \$3,172,553 in net payments, from the Plan's yearly settlement calculations, totaling \$15,442,720 in net payments. We selected these provider settlements based on our nomenclature review of the various settlement types.
- 9 fraud recoveries, totaling \$3,866, from a universe of 88 recoveries, totaling \$6,125. For this sample, we selected the five highest fraud recoveries where the funds were recovered via auto recoupments as well as all fraud recoveries that were returned via SPI's.

We reviewed these samples to determine if health benefit refunds and recoveries were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. 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 2009 through 2013. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, pension, post-retirement, employee health benefits, executive compensation, non-recurring projects, out-of-system adjustments, and sale-leaseback transactions.<sup>2</sup> We used

---

<sup>2</sup> The Plan allocated administrative expenses of \$95,774,540 to the FEHBP from 557 cost centers and 33 natural accounts. From this universe, we selected a judgmental sample of 37 cost centers to review, which totaled \$71,860,761 in expenses allocated to the FEHBP. We also selected a judgmental sample of 10 natural accounts to review, which totaled \$44,495,393 in expenses allocated to the FEHBP. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses.

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 letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, and interest income transactions from 2010 through September 30, 2014, as well as the Plan's dedicated FEP investment account activity.

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.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

### 1. Health Benefit Refunds and Recoveries \$203,760

Our audit determined that the Plan had not returned two health benefit refunds, totaling \$186,314, to the FEHBP as of September 30, 2014. As a result of this audit finding, the Plan returned \$203,760 to the FEHBP in August 2015, consisting of \$186,314 for the questioned refunds and \$17,446 for applicable lost investment income (LII).

Contract CS 1039, Part II, Section 2.3 (i) states, “All health benefit refunds and 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.” Also, based on an agreement between OPM and the Association, dated March 26, 1999, BCBS plans have 30 days to return health benefit refunds and recoveries to the FEHBP before LII will commence to be assessed.

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 41 U.S.C. 7109, 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.”

#### Health Benefit Refunds – Cash Receipts

For the period 2010 through September 30, 2014, we identified 15,450 health benefit refund cash receipt amounts, totaling \$15,044,133, for FEP. From this universe, we selected and reviewed a judgmental sample of 39 high dollar health benefit refunds, totaling \$4,778,302, and a statistical sample of 72 health benefit refunds, totaling \$1,002,775, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our high dollar sample included all refund receipt amounts of \$50,000 or more and our statistical sample included refunds selected from a stratification of receipt amounts greater than \$250 but less than \$50,000.

**Our audit identified two unreturned health benefit refunds totaling \$186,314, which the Plan then returned, along with LII of \$17,446, to the FEHBP.**

Based on our review, we determined that the Plan had not returned two health benefit refunds, totaling \$186,314, to the FEHBP as of September 30, 2014. These questioned health benefit refunds were identified in our high dollar sample. As a result of this finding, the Plan returned \$203,760 to the FEHBP in August 2015, consisting of \$186,314 for the two questioned health benefit refunds and \$17,446 for applicable LII on these refunds.

*Health Benefit Refunds – Auto Recoupments*

For the period 2010 through September 30, 2014, we identified 73,800 FEP health benefit refunds, totaling \$71,171,704, that were returned to the FEHBP via auto recoupments. From this universe, we selected and reviewed a judgmental sample of 40 high dollar auto recoupments, totaling \$7,652,515, and a statistical sample of 72 auto recoupments, totaling \$1,994,640, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our high dollar sample included all auto recoupments of \$125,000 or more and our statistical sample included auto recoupments selected from a stratification of amounts greater than \$500 but less than \$125,000. Based on our review, we determined that the Plan properly returned these refunds to the FEHBP via auto recoupments.

*Health Benefit Refunds – Direct Data Entry (DDE)*

For the period 2010 through September 30, 2014, we identified 2,207 DDE health benefit refunds (i.e., refunds related to claims that were directly entered into the FEP claims system), totaling \$840,772, for FEP. From this universe, we selected and reviewed a judgmental sample of 20 high dollar DDE refunds, totaling \$314,737, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our sample included all DDE refunds of \$8,000 or more. Based on our review, we determined that the Plan timely returned these DDE refunds to the FEHBP.

*Association Response:*

*The Association and Plan agree with this finding.*

**OIG Comment:**

We verified that the Plan returned \$203,760 to the FEHBP in August 2015, consisting of \$186,314 for the questioned health benefit refunds and \$17,446 for applicable LII.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$186,314 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan returned \$186,314 to the FEHBP for these questioned health benefit refunds, no further action is required for this amount.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$17,446 to the FEHBP for LII on the questioned health benefit refunds. However, since we verified that the Plan returned \$17,446 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**2. Medical Drug Rebates**

**\$23,363**

Our audit determined that the Plan had not returned two medical drug rebate amounts, totaling \$22,028, to the FEHBP as of September 30, 2014. The Plan subsequently returned these questioned medical drug rebates to the FEHBP on March 17, 2015, more than 60 days after receipt and after receiving our audit notification letter. As a result of our audit, the Plan returned \$23,363 to the FEHBP, consisting of \$22,028 for the questioned medical drug rebates and \$1,335 for applicable LII on these 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.”

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier.

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

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16 (a), 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.”

The Plan participates in medical drug rebate programs with various drug manufacturers. The drug rebates are determined based on medical claims for the applicable drugs, which are primarily administered in a physician's office. These drug rebates are received multiple times a year (usually on a quarterly basis) and credited to the participating groups, including the FEP. From January 1, 2010 through September 30, 2014, the Plan received [REDACTED] FEP medical drug rebate amounts, totaling \$ [REDACTED]. We reviewed all of these medical drug rebate amounts to determine if the Plan timely returned these rebates to the FEHBP.

**The Plan returned medical drug rebates of \$22,028 to the FEHBP approximately three years late and after the audit notification date.**

Based on our review, we determined that the Plan returned two medical drug rebate amounts, totaling \$22,028, and applicable LII, totaling \$1,335, to the FEHBP on March 17, 2015. The Plan returned these two rebate amounts to the FEHBP approximately three years after receipt (i.e., 1,081 and 1,173 days late) and after receiving our audit notification letter (dated October 1, 2014). The Plan self-disclosed that these two medical drug rebate amounts were identified while preparing for the audit. Therefore, we are questioning \$23,363 as a monetary finding, consisting of \$22,028 for medical drug rebates and \$1,335 for LII on these rebates.

**Association Response:**

*The Association and Plan agree with this finding.*

**OIG Comment:**

We verified that the Plan returned \$23,363 to the FEHBP on March 17, 2015, consisting of \$22,028 for the questioned medical drug rebates and \$1,335 for LII on these rebates.

**Recommendation 3**

We recommend that the contracting officer require the Plan to return \$22,028 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan returned \$22,028 to the FEHBP for these questioned rebates, no further action is required for this amount.

**Recommendation 4**

We recommend that the contracting officer require the Plan to return \$1,335 to the FEHBP for LII on the questioned medical drug rebates. However, since we verified that the Plan returned the questioned LII to the FEHBP, no further action is required for this LII amount.

**B. ADMINISTRATIVE EXPENSES**

The audit disclosed no findings pertaining to administrative expenses. Overall, we concluded that the Plan charged administrative expenses to the FEHBP that were actual, allowable, necessary, and reasonable expenses incurred in accordance with Contract CS 1039 and applicable laws and regulations.

**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 and FEPDO did not report, or did not timely report, all fraud and abuse cases to the OIG.**

The Plan and Association’s FEP Director’s Office (FEPDO) are not in compliance with the communication and reporting requirements for fraud and abuse cases set forth in FEHBP Carrier Letter (CL) 2011-13. Specifically, the Plan and FEPDO did not report, or did not timely report, all fraud and abuse cases to the OIG. This non-compliance may be due in part to incomplete and/or untimely reporting of fraud and abuse cases to the FEPDO by the Plan, 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.

The FEPDO is primarily responsible for timely reporting fraud and abuse cases to the OIG (i.e., within 30 working days of becoming aware of a fraud, waste or abuse issue). In order to comply with the timeliness requirement, the FEPDO requires the BCBS plans to enter fraud and abuse cases into the Fraud Information Management System (FIMS).



FIMS is a multi-user, web-based FEP case-tracking database that the FEPDO's Special Investigations Unit (SIU) developed in-house. FIMS is used by the local BCBS plans' SIUs and the FEPDO's SIU to track and report potential fraud and abuse activities. The FEPDO is responsible for the maintenance and oversight of this system as well as reporting to the OIG all fraud and abuse cases that are entered into FIMS by the local BCBS plans.

For the period January 2014 through September 2014, the Plan opened 29 fraud and abuse cases with potential FEP exposure. Based on our review of these cases, we determined that the FEPDO did not report 11 of these cases to the OIG and untimely reported 6 of these cases (i.e., 53 to 379 days after identifying FEP exposure). The remaining 12 cases were either timely reported to the OIG or did not require notification after the Plan determined that there was no FEP exposure. In addition, we found that the Plan did not report one of the opened cases into FIMS and untimely reported two of the open cases, which may have contributed to the FEPDO not reporting or timely reporting cases to the OIG.

Ultimately, both the Plan's not reporting or 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 OIG, have resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2011-13. Timely case notifications allow the OIG to investigate whether other FEHBP Carriers are exposed to the identified fraudulent activity. Consequently, untimely notifications or the lack of OIG notification may result in additional improper payments being made by other FEHBP Carriers.

### **Recommendation 5**

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 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).<sup>3</sup> 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.

---

<sup>3</sup> CL 2014-29 (dated December 19, 2014) consolidates and updates the information from CL's 2003-23, 2003-25, 2007-12, and 2011-13, which are superseded by this guidance. CL 2014-29 also supplements guidance from the FEHBP contract (Section 1.9 – Plan Performance).

**Association Response:**

*The Association states, “BCBSA agrees with this recommendation. BCBSA will review the Plan’s current Fraud Waste and Abuse Manual to ensure that the manual addresses all of the Program requirements. BCBSA will also work with the Plan to modify their Procedures, as necessary based upon the results of the review. BCBSA expects to complete this review by January 31, 2016. In addition, BCBSA conducted training for all Plans on June 3<sup>rd</sup>, June 11<sup>th</sup>, August 27<sup>th</sup> and September 22, 2015 . . . on the revised 2015 FEP Fraud Waste and Abuse Program Standards Manual and OPM requirements to ensure compliance with OPM and Carrier Letter requirements as well as to ensure that entries into FIMS are timely and complete. BCBSA also conducted Plan specific training onsite at the Plan on September 15, 2015. BCBSA will continue to provide Plan training as necessary.”*

**Recommendation 6**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the FEPDO’s SIU 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 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).

**Association Response:**

*The Association states, “BCBSA modified its processes and manual on May 15, 2015 to meet the communication and reporting requirements of fraud and abuse cases contained in CL 2011-13 and CL 2014-29.”*

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## Experience-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Auditor

██████████, Auditor

---

██████████, Chief ██████████

██████████, Senior Team Leader

V. SCHEDULE A

BLUECROSS BLUESHIELD OF MINNESOTA  
EAGAN, MINNESOTA  
QUESTIONED CHARGES

AUDIT FINDINGS	2009	2010	2011	2012	2013	2014	2015	TOTAL
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>								
1. Health Benefit Refunds and Recoveries*								\$203,760
2. Medical Drug Rebates*								23,363
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>								<b>\$227,123</b>
<b>B. ADMINISTRATIVE EXPENSES</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>C. CASH MANAGEMENT</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>D. FRAUD AND ABUSE PROGRAM</b>								
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL FRAUD AND ABUSE PROGRAM</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$131,789</b>	<b>\$1,464</b>	<b>\$13,668</b>	<b>\$14,568</b>	<b>\$2,376</b>	<b>\$60,614</b>	<b>\$2,644</b>	<b>\$227,123</b>

\* We included lost investment income (LII) within audit findings A1 (\$17,446), and A2 (\$1,335). Therefore, no additional LII is applicable for these audit findings.

## APPENDIX



Federal Employee Program  
1310 G Street, N.W.  
Washington, D.C. 20005  
202.626.4800

November 30, 2015

██████████, 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 Minnesota  
Report Number 1A-10-78-15-040  
(September 30, 2015)**

Dear ██████████:

This is BlueCross BlueShield of Minnesota's 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. Health Benefit Refunds and Recoveries \$203,760**

##### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$186,314 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan returned \$186,314 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

##### **Plan Response:**

The Plan agrees with this recommendation.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$17,446 to the FEHBP for LII on the questioned health benefit refunds. However, since we verified that the Plan returned \$17,446 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response:**

The Plan agrees with this recommendation.

2. **Medical Drug Rebates** **\$23,363**

**Recommendation 3**

We recommend that the contracting officer require the Plan to return \$22,028 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan returned \$22,028 to the FEHBP for these questioned rebates, no further action is required for this amount.

**Plan Response:**

The Plan agrees with this recommendation.

**Recommendation 4**

We recommend that the contracting officer require the Plan to return \$1,335 to the FEHBP for LII on the questioned medical drug rebates. However, since we verified that the Plan returned \$1,335 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response:**

The Plan agrees with this recommendation.

**B. ADMINISTRATIVE EXPENSES– No Plan Response required**

The audit disclosed no findings pertaining to administrative expenses. Overall, we concluded that the Plan charged costs to the FEHBP that were actual, allowable, necessary, and reasonable expenses.

**C. CASH MANAGEMENT – No Plan Response required**

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**

**Recommendation 5**

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 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).<sup>1</sup> 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 review the Plan's current Fraud Waste and Abuse Manual to ensure that the manual addresses all of the Program requirements. BCBSA will also work with the Plan to modify their Procedures, as necessary based upon the results of the review. BCBSA expects to complete this review by January 31, 2016. In addition, BCBSA conducted training for all Plans on June 3<sup>rd</sup>, June 11<sup>th</sup>, August 27<sup>th</sup> and September 22, 2015 (Attachment 1) on the revised 2015 FEP Fraud Waste and Abuse Program Standards Manual and OPM requirements to ensure compliance with OPM and Carrier Letter requirements as well as to ensure that entries into FIMS are timely and complete. BCBSA also conducted Plan specific training onsite at the Plan on September 15, 2015. BCBSA will continue to provide Plan training as necessary.

**Recommendation 6**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the FEPDO's SIU 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 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).

---

[REDACTED] Group Chief  
November 30, 2015  
Page 4 of 4

**BCBSA Response**

BCBSA modified its processes and manual on May 15, 2015 to meet the communication and reporting requirements of fraud and abuse cases contained in CL 2011-13 and CL 2014-29. See Attachment 2 for a copy of the revised 2015 FEP Fraud Waste and Abuse Program Standards Manual.

Thank you for this opportunity to respond to the recommendations included in this draft report. If you have any questions, please contact me at 202.942.1285.

Sincerely,

[REDACTED]

[REDACTED]

Managing Director, Program Assurance

Attachments

cc: [REDACTED] Blue Cross Blue Shield of Minnesota

[REDACTED] FEP

[REDACTED] FEP





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

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

**By Internet:** <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

**By Phone:** Toll Free Number: (877) 499-7295  
Washington Metro Area: (202) 606-2423

**By Mail:** Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, NW  
Room 6400  
Washington, DC 20415-1100

-- 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 that 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 (<http://www.opm.gov/our-inspector-general>), caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

Report No. 1A-10-78-15-040