



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

Final Audit Report

**AUDIT OF
KPS HEALTH PLANS
SEATTLE, WASHINGTON**

**Report Number 1D-VT-00-15-026
February 02, 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 KPS Health Plans

Report No. 1D-VT-00-15-026

February 02, 2016

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that KPS Health Plans (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, such as refunds and pharmacy drug rebates, from 2010 through 2014. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2010 through March 31, 2015, and the Plan's Fraud and Abuse (F&A) Program for 2014.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$2,028,790 in health benefit refunds and recoveries, pharmacy drug rebates, cash management activities, and lost investment income (LII). We also identified a procedural finding regarding the Plan's F&A Program. The 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 \$741,856 for health benefit refunds and recoveries and pharmacy drug rebates that had not been returned to the FEHBP as of December 31, 2014, and \$122,060 for LII on health benefit refunds and recoveries and pharmacy drug rebates that were returned untimely to the FEHBP. We verified that the Plan has returned these questioned amounts to the FEHBP.
- Cash Management – We determined that the Plan held an excess working capital deposit of \$1,149,634 in the dedicated FEHBP investment account as of March 31, 2015. We also questioned \$15,240 for investment income earned on funds held in the dedicated investment account from January 2010 through December 2014 that had not been returned to the FEHBP. We verified that the Plan has returned these questioned amounts to the FEHBP.
- 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

CL	Carrier Letter
EFTs	Electronic Fund Transfers
FAR	Federal Acquisition Regulations
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
F&A	Fraud and Abuse
HMO	Health Maintenance Organization
LOCA	Letter of Credit Account
Guidelines	Letter of Credit System Guidelines
LII	Lost Investment Income
OIG	Office of the Inspector General
OPM	Office of Personnel Management
Plan	KPS Health Plans
SIU	Special Investigations Unit
WC	Working Capital

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	6
A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u>	6
1. Health Benefit Refunds and Recoveries	6
2. Pharmacy Drug Rebates.....	9
B. <u>CASH MANAGEMENT</u>	11
1. Excess Working Capital Deposit	11
2. Investment Income.....	13
C. <u>FRAUD AND ABUSE PROGRAM</u>	14
1. Special Investigations Unit	14
IV. MAJOR CONTRIBUTORS TO THIS REPORT.....	17
V. SCHEDULE A - QUESTIONED CHARGES	
APPENDIX (KPS Health Plans' Draft Report Response, dated September 18, 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 KPS Health Plans (Plan). The Plan's offices are located in Bremerton and Seattle, Washington.

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

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 Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.¹ Since 2005, the Plan has operated as a wholly owned subsidiary of Group Health Cooperative, which is headquartered in Seattle, Washington. The Plan enrollment is open to federal employees and their families residing in the state of Washington.

The Plan's contract (CS 1767) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses which have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

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

¹ Members of an experience-rated HMO have the option of using a designated network of providers or using non-network providers. A member's choice in selecting one healthcare provider over another has monetary and medical implications. For example, if a member chooses a non-network provider, the member will pay a substantial portion of the charges and benefits available may be less comprehensive.

All findings from our prior audit of the Plan (Report No. 1D-VT-00-02-004, dated November 25, 2002) for contract years 1998 through 2000 have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan officials throughout the audit and at an exit conference on July 27, 2015; and were presented in a draft report, dated July 30, 2015. The Plan'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.

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

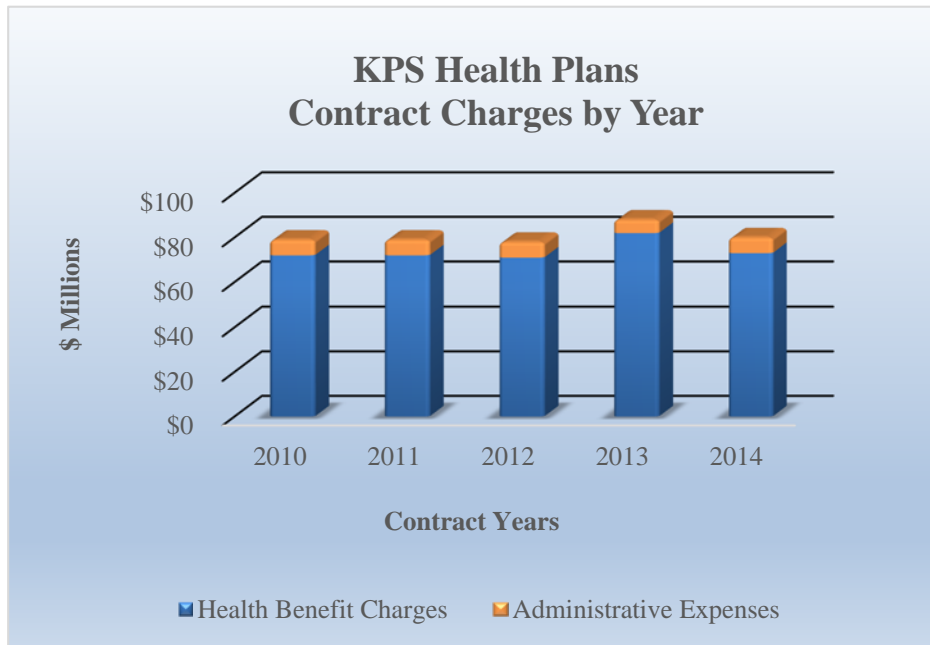
- To determine whether the Plan's communication and reporting of fraud and abuse cases were in compliance with the terms of Contract CS 1767 and the applicable FEHBP Carrier Letters.

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 KPS Health Plans' Annual Accounting Statements pertaining to Plan codes "VT" and "L1" for contract years 2010 through 2014. During this period, the Plan processed approximately \$371 million in FEHBP health benefit payments and charged \$34 million for administrative expenses for these Plan codes. Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and pharmacy drug rebates)

from 2010 through 2014 and cash management activities from 2010 through March 31, 2015. We also reviewed the Plan's Fraud and Abuse (F&A) Program for 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, 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 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 Seattle, Washington from April 27, 2015 through May 8, 2015. Audit fieldwork was also performed at our office in Jacksonville, Florida through July 2015.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan's financial 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 2014, we also judgmentally selected and reviewed all health benefit refunds and subrogation recoveries, totaling \$3,871,545; all 54 pharmacy drug rebate allocation amounts, totaling \$2,076,267; and 12 fraud recoveries, totaling \$18,595 (from a universe of 15 fraud recoveries, totaling \$18,958), to determine if health benefit refunds and recoveries and pharmacy drug rebates were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.²

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1767 and applicable laws and regulations. Specifically, we reviewed the Plan's letter of credit account (LOCA) drawdowns and interest income transactions from 2010 through 2014, the Plan's working capital calculations, adjustments and/or balances from 2010 through March 31, 2015, and the Plan's dedicated FEHBP investment account balance as of December 31, 2014.

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 1767 and the applicable FEHBP Carrier Letters.

² For the sample of fraud recoveries, we selected and reviewed all of the cash recovery amounts. The results of this sample were not projected to the universe of fraud recoveries.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds and Recoveries \$583,500

Our audit determined that the Plan had not returned health benefit refunds and recoveries, totaling \$505,739, to the FEHBP as of December 31, 2014. The Plan subsequently returned these refunds and recoveries to the FEHBP in March and May 2015, more than 60 days after receipt (i.e., from 382 to 1,158 days late) and after receiving our audit notification letter. Additionally, the Plan untimely returned health benefit refunds and recoveries, totaling \$2,421,617, to the FEHBP during the audit scope and prior to receiving our audit notification letter. As a result, we are questioning \$583,500 for this audit finding, consisting of \$505,739 for health benefit refunds and recoveries returned to the FEHBP after our audit notification and \$77,761 for lost investment income (LII) on refunds and recoveries 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 refunds.”

Contract CS 1767, 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.”

Regarding reportable monetary findings, Contract CS 1767, 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 already 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 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.”

The following summarizes our reviews for health benefit refunds and recoveries:

Health Benefit Refunds and Subrogation Recoveries

For the period 2010 through December 31, 2014, health benefit refunds and subrogation recoveries totaled \$3,871,545. Based on our review, we determined that the Plan untimely returned most of these health benefit refunds and subrogation recoveries to the FEHBP. The following exceptions were noted:

- As a result of our audit, the Plan identified and returned health benefit refunds and subrogation recoveries, totaling \$487,144, to the FEHBP on various dates in March and May 2015. These return dates were more than 60 days after receipt (i.e., from 382 to 1,158 days late) and after receiving our audit notification letter (dated January 5, 2015). Therefore, we are questioning \$512,130 as a monetary finding, consisting of \$487,144 for health benefit refunds and subrogation recoveries returned to the FEHBP after our audit notification date and \$24,986 for LII on these refunds and recoveries returned untimely to the FEHBP. As a result of this finding, the Plan returned the questioned LII of \$24,986 to the FEHBP on July 10, 2015.
- The Plan also returned health benefit refunds and subrogation recoveries, totaling \$2,421,617, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these refunds and recoveries into the FEHBP investment account from 4 to 1,185 days late. Since the Plan returned these funds to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question this principal amount as a monetary finding. However, the FEHBP is due LII of \$51,790 on these refunds and recoveries since the funds were deposited untimely into the FEHBP investment account. As a result of this finding, the Plan returned the questioned LII of \$51,790 to the FEHBP on July 10, 2015.

Fraud Recoveries

For the period 2010 through December 31, 2014, there were 15 fraud recoveries totaling \$18,958. We selected and reviewed a judgmental sample of 12 fraud recoveries, totaling \$18,595, for the purpose of determining if the Plan timely returned these recoveries to the FEHBP. Our sample included all of the cash recovery amounts in the universe.

We determined that the Plan had not returned 12 fraud recoveries, totaling \$18,595, to the FEHBP as of December 2014. The Plan subsequently returned these fraud recoveries to the FEHBP in May 2015, more than 60 days after receipt (i.e., from 942 to 1,044 days late) and after receiving our audit notification letter (dated January 5, 2015). Therefore,

we are questioning \$19,580 as a monetary finding, consisting of \$18,595 for fraud recoveries returned to the FEHBP after our audit notification date and \$985 for LII on these recoveries returned untimely to the FEHBP. As a result of this finding, the Plan returned the questioned LII of \$985 to the FEHBP on July 10, 2015.

Summary of Questioned Amounts

The Plan returned refunds and recoveries of \$505,739 to the FEHBP from 382 to 1,158 days late and after the audit notification date.

In total, we are questioning \$505,739 (\$487,144 plus \$18,595) for health benefit refunds and recoveries returned to the FEHBP more than 60 days after receipt and after our audit notification date. We are also questioning \$77,761 (\$24,986 plus \$51,790 plus \$985) for applicable LII on health benefit refunds and recoveries that were returned untimely to the FEHBP.

Plan's Response:

The Plan agrees with this finding.

OIG Comment:

We verified that the Plan returned \$583,500 to the FEHBP for this finding, consisting of \$505,739 for the questioned health benefit refunds and recoveries and \$77,761 for applicable LII on refunds and recoveries that were returned untimely to the FEHBP.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$505,739 to the FEHBP for the questioned health benefit refunds and recoveries. However, since we verified that the Plan returned \$505,739 to the FEHBP for the questioned health benefit refunds and recoveries, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$77,761 to the FEHBP for LII on health benefit refunds and recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan returned \$77,761 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Pharmacy Drug Rebates

\$280,416

Our audit determined that the Plan had not returned four pharmacy drug rebate amounts, totaling \$236,117, to the FEHBP as of December 31, 2014. The Plan subsequently returned these pharmacy drug rebates to the FEHBP in March 2015, more than 2 ½ years late and after receiving our audit notification letter. Additionally, the Plan untimely returned pharmacy drug rebate amounts, totaling \$1,257,669, to the FEHBP during the audit scope and prior to receiving our audit notification letter. As a result, we are questioning \$280,416 for this audit finding, consisting of \$236,117 for pharmacy drug rebates returned to the FEHBP after our audit notification and \$44,299 for LII on pharmacy drug rebates returned untimely to the FEHBP.

As previously cited from Contract CS 1767, all health benefit refunds and recoveries must be deposited into the FEHBP 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 1767, 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 already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

The Plan’s pharmacy drug claims are processed by MedImpact, which is the Plan’s Pharmacy Benefit Manager. Pharmacy drug rebates are received multiple times a year (usually monthly) by the Plan and then allocated and credited to the participating groups quarterly, including the FEHBP. From January 2010 through December 2014, the Plan received [REDACTED] pharmacy drug rebate amounts, totaling \$ [REDACTED], for all participating groups. Of these, the Plan allocated [REDACTED] pharmacy drug rebate amounts, totaling \$ [REDACTED], to the FEHBP. We selected and reviewed all of these amounts that were allocated to the FEHBP for the purpose of determining if the Plan properly allocated and timely returned pharmacy drug rebates to the FEHBP.

The following summarizes the exceptions noted:

- The Plan had not deposited four pharmacy drug rebate amounts, totaling \$236,117, into the dedicated FEHBP investment account as of December 31, 2014. The Plan subsequently returned these pharmacy drug rebates to the FEHBP in March 2015, more than 2 ½ years late and after receiving our audit notification letter (dated January 5, 2015). The Plan identified this exception while preparing for our audit. Therefore, we are questioning this amount as a monetary finding as well as LII for returning these pharmacy drug rebates untimely to the FEHBP. As a result of this finding, the Plan also returned LII of \$9,246 to the FEHBP on July 10, 2015.
- The Plan also returned 30 pharmacy drug rebate amounts, totaling \$1,257,669, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these funds into the dedicated FEHBP investment account from 7 to 832 days late. Since the Plan returned these pharmacy drug rebates to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question this principal amount as a monetary finding. However, the FEHBP is due LII on these rebates since the funds were deposited untimely into the FEP investment account. As a result of this finding, the Plan returned LII of \$35,053 to the FEHBP on July 10, 2015.

The Plan returned pharmacy drug rebates of \$236,117 to the FEHBP over 2 ½ years late and after the audit notification date.

In total, we are questioning \$236,117 for pharmacy drug rebates returned to the FEHBP more than 2 ½ years late and after receiving our audit notification letter. We are also questioning \$44,299 (\$9,246 plus \$35,053) for applicable LII on pharmacy drug rebates returned untimely to the FEHBP.

Plan's Response:

The Plan agrees with this finding.

OIG Comment:

We verified that the Plan returned \$280,416 to the FEHBP for this finding, consisting of \$236,117 for the questioned pharmacy drug rebates and \$44,299 for LII on pharmacy drug rebates that were returned untimely to the FEHBP.

Recommendation 3

We recommend that the contracting officer require the Plan to return \$236,117 to the FEHBP for the questioned pharmacy drug rebates. However, since we verified the Plan returned \$236,117 to the FEHBP for the questioned pharmacy drug rebates, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$44,299 to the FEHBP for LII on pharmacy drug rebates returned untimely to the FEHBP. However, since we verified the Plan returned \$44,299 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. CASH MANAGEMENT

1. Excess Working Capital Deposit **\$1,149,634**

As of March 31, 2015, the Plan held a working capital (WC) deposit of \$1,149,634 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments. As a result of our audit, the Plan returned \$1,149,634 to the FEHBP for the excess WC deposit.

OPM's "Letter of Credit System Guidelines" (Guidelines), dated May 2009, states: "Carriers should maintain a working capital balance equivalent to an average of 2 days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital fund on a monthly basis and adjust if necessary on a quarterly basis. The interest earned on the working capital funds must be credited to the FEHBP at least on a monthly basis. The working capital is not required but strongly recommended." Also, based on the Guidelines, the Carrier's WC calculation must exclude electronic fund transfers (EFTs).

In addition, based on the regulations governing the financing of Federal programs by the letter of credit method as established in 31 CFR 205 (Treasury Department Circular No. 10750), electronic fund transfers should not be included in the WC calculation. These instructions are established under the provisions of Treasury Department Circular No. 1083 (Regulations Governing the Utilization of the U.S. TFCS), 5 CFR Part 890, and 48 CFR Chapter 16.

Based on industry practice (e.g., other FEHBP experience-rated Carriers), the WC deposit should be recalculated on a regular basis to determine if the amount currently

maintained is adequate to meet the Plan's daily cash needs for FEHBP claim payments. If the deposit is not adequate, the Plan should make an appropriate adjustment.

We noted that the Plan made no adjustments to the WC deposit during the audit scope.³ When reviewing the Plan's WC calculation, we determined that the Plan inappropriately included EFTs in the calculation. As of March 31, 2015, the Plan held a WC deposit amount of \$1,723,397 in the dedicated FEHBP investment account.

In response to our request, the Plan provided a revised WC calculation, excluding EFTs. The Plan recalculated the WC deposit on a monthly basis and determined that, as of March 31, 2015, the WC deposit should only be \$521,078. Based on the Plan's revised calculation, excess WC funds of \$1,202,319 (\$1,723,397 minus \$521,078) were held in the dedicated FEHBP investment account.

The Plan held an excess WC deposit of \$1,149,634 in the dedicated FEHBP investment account as of March 31, 2015.

However, we recalculated the Plan's WC deposit on a quarterly basis (excluding EFTs) and determined that, as of March 31, 2015, the Plan should have only maintained a WC deposit of \$573,763. Therefore, we determined that, as of March 31, 2015, the Plan held a WC deposit with an excess amount of \$1,149,634 (\$1,723,397 minus \$573,763) over the amount actually needed to meet the Plan's daily cash needs for FEHBP claim payments. Since the Plan maintained these excess WC funds in an interest-bearing account and returned the interest earned on these funds to the FEHBP, no LII is due the FEHBP.

Plan's Response:

The Plan agrees with this finding.

OIG Comment:

We verified that the Plan returned the excess WC deposit of \$1,149,634 to the FEHBP on June 29, 2015.

³ Although the audit scope for cash management activities and practices initially only included 2010 through 2014, we expanded the scope for the WC deposit to also include January 2015 through March 2015.

Recommendation 5

We recommend that the contracting officer require the Plan to return \$1,149,634 to the FEHBP for the excess WC deposit. However, since we verified that the Plan returned the excess WC funds of \$1,149,634 to the FEHBP, no further action is required for this questioned amount.

Recommendation 6

We recommend that the contracting officer update the Annual Accounting Statement for the experience-rated HMO's and Employee Organization plans to include a specific worksheet for the WC deposit and adjustments.

2. Investment Income \$15,240

Our audit determined that the Plan had not returned investment income of \$15,240 to the FEHBP as of December 31, 2014. This investment income was earned on funds held in the dedicated FEHBP investment account from January 2010 through December 2014. As a result of our audit, the Plan returned this investment income of \$15,240 to the FEHBP.

48 CFR 1652.215-71 (a) states, "The Carrier shall invest and reinvest all funds on hand that are in excess of the funds needed to promptly discharge the obligations incurred under this contract." 48 CFR 1652.215-71 (b) states, "All investment income earned on FEHB funds shall be credited to the Special Reserve on behalf of the FEHBP."

Regarding reportable monetary findings, Contract CS 1767, 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 already identified and corrected . . . prior to audit notification."

During the period January 2010 through December 2014, WC and excess funds in the Plan's dedicated FEHBP investment account earned a total of \$15,240 in investment income. After receiving our audit notification letter and audit information request (dated January 5, 2015) and while preparing for our audit, the Plan self-disclosed that this investment income amount inadvertently had not been returned to the FEHBP. As a result, the Plan returned this investment income amount to the FEHBP on February 23, 2015. Since the Plan held the investment income in the dedicated FEHBP investment account, LII is not applicable for this audit finding.

Plan's Response:

The Plan agrees with this finding.

OIG Comment:

We verified that the Plan returned \$15,240 to the FEHBP for the questioned investment income.

Recommendation 7

We recommend that the contracting officer require the Plan to return \$15,240 to the FEHBP for the questioned investment income. However, since we verified that the Plan returned \$15,240 to the FEHBP for questioned investment income, no further action is required for this amount.

C. 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. 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.

During the period January 1, 2014 through December 31, 2014, the Plan opened 134 fraud and abuse cases. Of these, only two cases were identified with FEHBP exposure. We reviewed these two cases with FEHBP exposure to determine if the cases were reported to the OIG as required by CL 2011-13. Based on our review, we determined that notification for only one of these cases with FEHBP exposure was sent to the OIG. Because both of these cases have FEHBP exposure, and there is no financial 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 may be due, in part, to the Plan downsizing the Special Investigations Unit (SIU) and only having one investigator during the audit scope. Section 1.9(a) of Contract CS 1767 requires that the Plan implement a program to assess its vulnerability to fraud and abuse and operate a system designed to detect and eliminate fraud and abuse internally by Plan employees and subcontractors, by providers providing goods or services to FEHBP members, and by individual FEHBP members. In our opinion, by having only one investigator for the entire company, the Plan's F&A Program is not as effective as this program should be.

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

The CL 2011-13 requires the Plan to submit written notification to the OIG within 30 days of any relevant FEHBP fraud activity. However, of the two cases with FEHBP exposure in 2014, we determined that one case was referred untimely to the OIG (i.e., four days late) and the other case was not referred at all. Without submitting timely referrals to the OIG, the Plan's SIU cannot meet the FEHBP's contractual communication and reporting requirements.

Ultimately, the Plan's untimely communicating or not reporting of potential FEHBP cases to the OIG has 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. As a result, this non-compliance by the Plan may result in additional improper payments being made by other FEHBP Carriers.

Plan's Response:

The Plan agrees with this finding.

OIG Comment:

In the Plan's response to the audit inquiry (dated July 1, 2015), the Plan stated that the SIU is in the process of updating the policies and procedures to ensure timely reporting of all fraud, waste and abuse cases to the OIG. Subsequent to the draft report, the Plan also informed us in an email (dated September 11, 2015) that the Plan's SIU was already in the process of hiring an additional investigator prior to the OIG audit. According to the Plan, this additional investigator was hired and started in August 2015.

Recommendation 8

We recommend that the contracting officer require the Plan 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).⁴ We also recommend that the Plan have more than one investigator on staff to investigate fraud and abuse cases.

⁴ CL 2014-29 (dated December 19, 2014) consolidates and updates the information from CL's 2003-23, 2003-25, 2007-12, 2011-13, which are superseded by this guidance. CL 2014-29 also supplements guidance from the FEHBP contract (Section 1.9 – Plan Performance).

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

██████████, Chief

██████████, Senior Team Leader

V. SCHEDULE A

KPS HEALTH PLANS SEATTLE, WASHINGTON							
QUESTIONED CHARGES							
AUDIT FINDINGS	2010	2011	2012	2013	2014	2015	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS							
1. Health Benefit Refunds and Recoveries*	█	█	█	█	█	█	\$583,500
2. Pharmacy Drug Rebates*	█	█	█	█	█	█	280,416
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	█	█	█	█	█	█	\$863,916
B. CASH MANAGEMENT							
1. Excess Working Capital Deposit	\$0	\$0	\$0	\$0	\$0	\$1,149,634	\$1,149,634
2. Investment Income	11,285	1,606	845	952	552	0	15,240
TOTAL CASH MANAGEMENT	\$11,285	\$1,606	\$845	\$952	\$552	\$1,149,634	\$1,164,874
C. FRAUD AND ABUSE PROGRAM							
1. Special Investigation Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$59,665	\$27,150	\$644,914	\$136,165	\$11,262	\$1,149,634	\$2,028,790
* We included lost investment income (LII) within audit findings A1 (\$77,761) and A2 (\$44,299). Therefore, no additional LII is applicable for these findings.							

September 18, 2015

██████████

Office of Personnel Management
Office of the Inspector General
701 San Marco Blvd, Suite 1207
Jacksonville, FL 32207

RE: Office of Personnel Management, Office of Inspector General Limited Financial Audit of KPS Health Plans, Bremerton, Washington

Dear ██████████:

Thank you for the opportunity to work with the OPM OIG on the KPS Health Plan audit. In regards to the final draft report issued on July 30, 2015, KPS Health Plan agrees with the audit findings and recommendations in the draft report.

Sincerely,



Jim Page, President
KPS Health Plans



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. 1D-VT-00-15-026