



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

Final Audit Report

Subject:

AUDIT OF BLUECROSS BLUESHIELD OF MASSACHUSETTS BOSTON, MASSACHUSETTS

Report No. 1A-10-11-11-058

Date: June 14, 2012

--CAUTION--

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

AUDIT REPORT

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

BlueCross BlueShield of Massachusetts
Plan Codes 200/700
Boston, Massachusetts

REPORT NO. 1A-10-11-11-058 DATE: 06/14/12

A handwritten signature in black ink, appearing to read "M. R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits

--CAUTION--

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Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

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

BlueCross BlueShield of Massachusetts
Plan Codes 200/700
Boston, Massachusetts

REPORT NO. 1A-10-11-11-058 DATE: 06/14/12

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Massachusetts (Plan), in Boston, Massachusetts, questions \$81,307 in health benefit charges, administrative expenses, and lost investment income (LII). The BlueCross BlueShield Association (Association) agreed (**A**) with this questioned amount.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits from 2006 through February 28, 2011, as well as administrative expenses from 2006 through 2010 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds from 2006 through February 28, 2011.

The audit results are summarized as follows:

MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

- **Health Benefit Refunds (A)** **\$2,094**

The Plan did not timely deposit 32 health benefit refunds, totaling \$1,132,957, into the Federal Employee Program (FEP) investment account. Since the Plan returned these health benefit refunds to the FEHBP during the audit scope, we did not question the principal amounts of these refunds as a monetary finding. However, as a result of this finding, the Plan returned LII of \$2,094 to the FEHBP calculated on these health benefit refunds.

ADMINISTRATIVE EXPENSES

- **Non-recurring Costs (A)** **\$75,684**

The Plan did not properly charge the FEHBP for non-recurring costs in 2006 and 2010, resulting in net overcharges of \$74,471. Specifically, the Plan overcharged the FEHBP by \$81,186 in 2010 and undercharged the FEHBP by \$6,715 in 2006 for non-recurring costs. In addition, LII totaled \$1,213 on the overcharge. After receiving our audit notification letter (dated March 2, 2011), the Plan returned \$82,399 to the FEHBP, consisting of \$81,186 for the non-recurring cost overcharge in 2010 and \$1,213 for applicable LII. However, the Association did not provide documentation to support if the Plan made an adjustment of \$6,715 for the non-recurring cost undercharge in 2006.

- **Cost Center Allocation Error (A)** **\$3,381**

The Plan incorrectly allocated costs to the FEP for cost center 9988 “BENEFITS PD” in 2010, resulting in an overcharge of \$3,301 to the FEHBP. As a result of this finding, the Plan returned \$3,381 to the FEHBP, consisting of \$3,301 for the cost center overcharge and \$80 for applicable LII.

- **Prior Period Adjustments (A)** **\$1,078**

During a 2007 Control and Performance Review, the Association identified \$23,165 in non-chargeable administrative expenses that were charged to the FEHBP in 2006. Although the Plan appropriately returned these funds to the FEHBP, the Plan did not calculate and return applicable LII to the FEHBP. As a result of our finding, the Plan returned LII of \$1,078 to the FEHBP calculated on these non-chargeable administrative expenses.

- **BlueCross BlueShield Association Dues (A)** **(\$930)**

The Plan did not allocate Association dues to the FEHBP in accordance with the agreement between the Association and the Office of Personnel Management regarding dues chargeability. As a result, the FEHBP was undercharged \$930 for Association dues in 2007.

CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the finding pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

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

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

BACKGROUND

The FEHBP was established by the Federal Employees Health Benefits (FEHB) Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The BlueCross BlueShield Association (Association), on behalf of participating BlueCross and BlueShield plans, has entered into a Government-wide Service Benefit Plan contract (CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BlueCross and BlueShield plans throughout the United States to process the health benefit claims of its federal subscribers. The Plan is one of approximately 63 local BlueCross and BlueShield plans participating in the FEHBP.

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

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

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

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

All findings from our previous audit of the Plan (Report No. 1A-10-11-04-065, dated June 26, 2006) for contract years 2000 through 2003 have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference; and were presented in detail in a draft report, dated December 21, 2011. 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. Also, additional documentation provided by the Association and Plan on various dates through February 27, 2012 was considered in preparing our final 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.

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 200 and 700 for contract years 2006 through 2010. During this period, the Plan paid approximately \$2 billion in health benefit charges and \$99 million in administrative expenses (See Figure 1 and Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and fraud recoveries) and cash management activities for 2006 through February 28, 2011. We also reviewed administrative expenses for 2006 through 2010.

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.

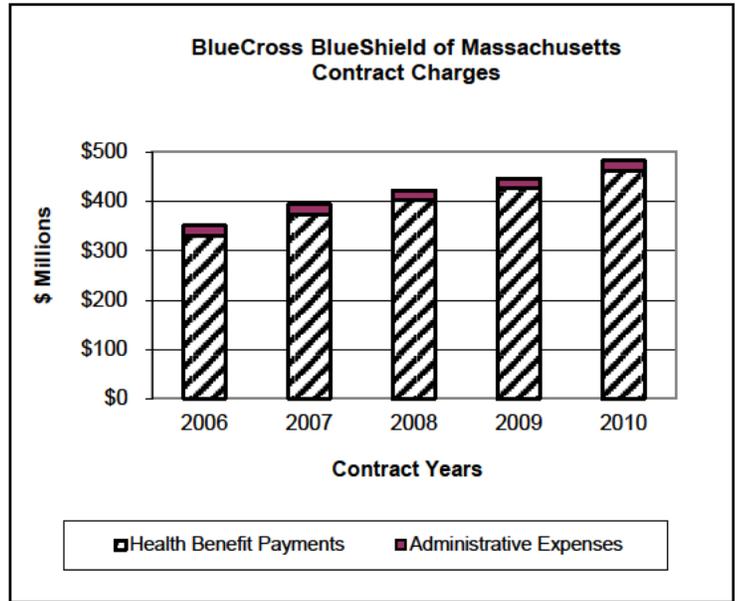


Figure 1 - Contract Charges

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 Boston, Massachusetts on various dates from August 15, 2011 through November 10, 2011. Audit fieldwork was also performed at our office in Cranberry Township, Pennsylvania.

METHODOLOGY

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

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also

judgmentally selected and reviewed 183 high dollar health benefit refunds, totaling \$12,797,599 (from a universe of 198,690 refunds, totaling \$73,617,802); 26 high dollar special plan invoices (SPI), totaling \$8,810,403 in net payments (from a universe of 331 SPI's, totaling \$13,970,039 in net payments); 6 high dollar hospital and professional settlements, totaling \$3,067,222 in net FEP payments (from a universe of 57 settlements, totaling \$7,384,571 in net FEP payments); and 15 high dollar fraud recoveries, totaling \$492,511 (from a universe of 139 recoveries, totaling \$670,980), to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.² The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2006 through 2010. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee benefits, executive compensation, non-recurring projects, Association dues, subcontracts, gains and losses, lobbying, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of the administrative expense charges.

We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

² The sample of health benefit refunds included provider off-sets of \$50,000 or more and refund receipts of \$18,000 or more. For the SPI sample, we selected all SPI's with total miscellaneous payments or credits of \$175,000 or more. For hospital and professional settlements, the sample consisted of the three highest dollar hospital settlements and the three highest dollar professional settlements. The sample of fraud recoveries consisted of the 15 highest dollar recoveries.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds

\$2,094

The Plan did not timely deposit 32 health benefit refunds, totaling \$1,132,957, into the FEP investment account. Since the Plan returned these health benefit refunds to the FEHBP during the audit scope, we did not question the principal amounts of these refunds as a monetary finding. However, as a result of this finding, the Plan returned lost investment income (LII) of \$2,094 to the FEHBP calculated on these health benefit refunds.

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.” Also, based on an agreement between OPM and the Association, dated March 26, 1999, BlueCross and BlueShield 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 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.”

For the period January 1, 2006 through February 28, 2011, there were 198,690 health benefit refunds totaling \$73,617,802. From this universe, we selected and reviewed a judgmental sample of 183 health benefit refunds, totaling \$12,797,599, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our sample included all provider off-sets of \$50,000 or more and all refund receipts of \$18,000 or more.

We verified that all of the health benefit refunds in our sample were returned to the FEHBP. However, we determined that 32 refunds, totaling \$1,132,957, were deposited untimely into the FEP investment account. Specifically, these 32 refunds were deposited into the FEP investment account from 1 to 57 days late. As a result, we calculated LII of \$2,094 on these health benefit refunds since the funds were deposited untimely into the FEP investment account.

Association’s Response:

The Association agrees with this finding. The Association states that the Plan returned the applicable LII of \$2,094 to the FEHBP on December 8, 2011.

The Association also states, “The Plan established the following steps to minimize delays to refunds to the LOCA:

- To determine if there has been a delay in the entry of the cash receipt, both Treasury Operations and Other Party Liability will review cash receipts to ensure there was no delay in the entry of the cash receipt. This will be done by comparing the actual check receipt date to the date that was entered into the cash subsystem.
- Reporting of cash receipts to Corporate Accounting will be done weekly, rather than bi-weekly.
- Checks belonging to Other Party Liability will be delivered twice a week instead of once a week to the FEP processing area in order to facilitate the processing of any FEP Claims.”

OIG Comments:

We verified that the Plan returned \$2,094 to the FEHBP for the questioned LII.

Recommendation 1

Since we verified that the Plan returned \$2,094 to the FEHBP for LII on health benefit refunds deposited untimely into the FEP investment account, no further action is required for this LII amount.

B. ADMINSTRATIVE EXPENSES

1. Non-recurring Costs \$75,684

The Plan did not properly charge the FEHBP for non-recurring costs in 2006 and 2010, resulting in net overcharges of \$74,471. Specifically, the Plan overcharged the FEHBP by \$81,186 in 2010 and undercharged the FEHBP by \$6,715 in 2006 for non-recurring costs. In addition, LII totaled \$1,213 on the overcharge. After receiving our audit notification letter (dated March 2, 2011), the Plan returned \$82,399 to the FEHBP, consisting of \$81,186 for the non-recurring cost overcharge in 2010 and \$1,213 for applicable LII.

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.”

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.”

For the period 2006 through 2010, the Plan charged the FEHBP for eight non-recurring costs totaling \$1,034,062. From this universe, we selected and reviewed a judgmental sample of six non-recurring costs, totaling \$1,024,492, to determine whether these costs charged to the FEHBP were actual, allowable, allocable, and reasonable. Our sample included all non-recurring costs greater than \$75,000.

Based on our review, we identified the following exceptions:

- In 2010, the Plan charged the FEHBP twice for invoices related to an audit, resulting in an overcharge of \$81,186. The Plan subsequently identified this overcharge while preparing for our audit and returned \$81,186 to the FEHBP via prior period adjustment (PPA). In addition, the Plan returned LII of \$1,213 to the FEHBP calculated on this overcharge. The Plan deposited the principal and LII amounts into the FEP investment account on July 27, 2011, and adjusted the letter of credit account (LOCA) for these principal and LII amounts on July 29, 2011 and August 2, 2011, respectively. Although the Plan already returned this overcharge and applicable LII to the LOCA, we consider this to be a monetary finding since the Plan identified the overcharge after receiving our audit notification letter (dated March 2, 2011).
- In 2006, the Plan inadvertently did not charge the FEHBP \$6,715 for billable hours that were invoiced by a public accounting firm.

Association's Response:

The Association agrees with this finding.

The Association states, "The Plan agreed that the FEHBP was incorrectly charged for non-recurring costs in 2006 and 2010, resulting in net overcharges of \$75,684 to the FEP Program. The OIG verified that the Plan returned \$81,816 to the FEHBP . . . which included \$1,213 in Lost Investment Income. In addition, the Plan submitted a Prior Period Adjustment to the FEP Director's Office, related to undercharges . . . in the amount of \$6,715.

During 1st quarter 2012, the Plan will implement new procedures within the Cost Accounting department to review FEP non-recurring actual expenses and related accruals charged to FEP prior to the annual FEP Administrative Cost Submission to ensure FEP is not overcharged for the same type of non-recurring expenditures."

OIG Comments:

We verified that the Plan returned \$82,399 to the FEHBP, consisting of \$81,186 for the non-recurring cost overcharge in 2010 and \$1,213 for applicable LII. However, the Association did not provide documentation to support if the Plan made an adjustment of \$6,715 for the non-recurring cost undercharge in 2006.

Recommendation 2

Since we verified that the Plan returned \$81,186 to the FEHBP for the non-recurring cost overcharge in 2010, no further action is required for this questioned amount.

Recommendation 3

Since we verified that the Plan returned \$1,213 to the FEHBP for LII on the questioned non-recurring cost overcharge in 2010, no further action is required for this LII amount.

Recommendation 4

We recommend that the contracting officer allow the Plan to charge the FEHBP \$6,715 for non-recurring costs that were undercharged to the FEHBP in 2006.

2. Cost Center Allocation Error

\$3,381

The Plan incorrectly allocated costs to the FEP for cost center 9988 “BENEFITS PD” in 2010, resulting in an overcharge of \$3,301 to the FEHBP. As a result of this finding, the Plan returned \$3,381 to the FEHBP, consisting of \$3,301 for the cost center overcharge and \$80 for applicable LII.

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

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

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.”

For the period 2006 through 2010, the Plan allocated administrative expenses of \$98,371,637 (before adjustments) to the FEHBP from 404 cost centers and 42 natural accounts. From this universe, we selected a judgmental sample of 29 cost centers to review, which totaled \$58,800,072 in expenses allocated to the FEHBP. We also selected a judgmental sample of 19 natural accounts to review, which totaled \$93,426,576 in expenses allocated to the FEHBP. We selected the cost centers and natural accounts based on high dollar amounts, our nomenclature review, significant dollar amount fluctuations from year-to-year, and/or high dollar allocation methods. We reviewed the

expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness.

Based on our review, we determined that the Plan overcharged the FEHBP for cost center 9988 “BENEFITS PD” in 2010. We noted that the Plan performed a year-to-date allocation update for this cost center in 2010. However, while performing this update, the Plan incorrectly used December’s statistics instead of year-to-date statistics to allocate costs to the FEP. As a result, the Plan overcharged the FEHBP \$3,301 for this cost center. After receiving our draft report, the Plan returned \$3,301 to the FEHBP for the questioned overcharge as well as \$80 for applicable LII.

Association’s Response:

The Association agrees with this finding and states that the Plan returned the overcharge of \$3,301 to the FEHBP.

The Association also states, “During 1st quarter 2012, the Plan will implement new procedures within the Cost Accounting department so that when a cost center allocation update is deemed by management to be adjusted on a year-to-date basis the appropriate year-to-date statistics will be utilized to ensure the FEP administrative charges are appropriately adjusted.”

OIG Comments:

We verified that the cost center overcharge of \$3,301 and applicable LII of \$80 were returned to the FEHBP on December 23, 2011 and January 10, 2012, respectively.

Recommendation 5

Since we verified that the Plan returned \$3,301 to the FEHBP for the cost center overcharge, no further action is required for this questioned amount.

Recommendation 6

Since we verified that the Plan returned \$80 to the FEHBP for LII on the cost center overcharge, no further action is required for this LII amount.

3. Prior Period Adjustments **\$1,078**

During a 2007 Control and Performance Review (CPR), the Association identified \$23,165 in non-chargeable administrative expenses that were charged to the FEHBP in 2006. Although the Plan appropriately returned these funds to the FEHBP, the Plan did not calculate and return applicable LII to the FEHBP. As a result of our finding, the Plan returned LII of \$1,078 to the FEHBP calculated on these non-chargeable administrative expenses.

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

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.”

For the period 2006 through 2010, there were 11 PPA’s totaling \$472,108 in net credit adjustments to the FEHBP. From this universe, we selected and reviewed a judgmental sample of four PPA’s, totaling \$459,638 in credit adjustments, for the purpose of determining if the Plan properly returned these funds to the FEHBP. Our sample included all PPA’s with amounts of \$20,000 or more.

Based on our review, we identified the following exceptions:

- The Plan submitted a PPA to return \$20,774 to the FEHBP for unsupported non-recurring costs in 2006. These unsupported charges were identified in a 2007 CPR conducted by the Association. Although the Plan credited the FEHBP for these unsupported charges, the Plan did not calculate and return applicable LII. As a result of our finding, the Plan returned LII of \$966 to the FEHBP calculated on these unsupported charges.
- While reviewing the above issue, we also identified an additional CPR finding, not included in our PPA sample, where the Plan did not return LII. The Association identified \$2,391 in unallocable BluesNet costs that were charged to the FEHBP in 2006. Although the Plan credited the FEHBP for these unallocable charges, the Plan did not calculate and return applicable LII. As a result of our finding, the Plan returned LII of \$112 to the FEHBP calculated on these unallocable charges.

Association’s Response:

The Association agrees with this finding and states that the Plan returned LII of \$1,078 to the FEHBP on December 8, 2011.

The Association also states, “During the 1st quarter 2012, the Plan will implement new procedures . . . to review and ensure that all audit findings . . . due to the Program will include a calculation that determines Lost Investment Income (LII) and the LII will be refunded back to the Program timely and accurately.”

OIG Comments:

We verified that the Plan returned the questioned LII of \$1,078 to the FEHBP.

Recommendation 7

Since we verified that the Plan returned \$1,078 to the FEHBP for LII on the CPR audit findings, no further action is required for this LII amount.

4. BlueCross BlueShield Association Dues **(\$930)**

The Plan did not allocate Association dues to the FEHBP in accordance with the agreement between the Association and OPM regarding dues chargeability. As a result, the FEHBP was undercharged \$930 for Association dues in 2007.

FEP Memorandum #10-18PI (Memorandum), titled BCBSA Regular Member Plan Dues and Other Assessments: 2005-2010, dated March 1, 2010, provides guidance to the BCBS plans with respect to charging the FEHBP for Association dues. The Memorandum also includes the methods acceptable for computing the amount of dues that can be charged to the FEHBP.

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

To determine the reasonableness of the amounts charged to the FEHBP, we reviewed each year within the audit scope and recalculated FEP's share of the Association dues in accordance with the methods outlined in the memorandum. We found that the Plan undercharged the FEHBP \$930 in 2007 for Association dues.

This undercharge occurred due to the following reasons:

- The Plan used an allowability factor of 77.80 percent instead of the correct factor of 81.70 percent.
- The Plan allocated chargeable dues to the FEP based on an incorrect total number of FEP contracts that was used in the contract allocation ratio.

Association's Response:

The Association agrees with this finding and states that the Plan submitted a PPA on December 2, 2011 for the undercharge.

Recommendation 8

We recommend that the contracting officer allow the Plan to charge the FEHBP \$930 for Association dues that were undercharged to the FEHBP in 2007.

C. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the audit finding pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Lead Auditor

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██████████, Auditor

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██████████, Senior Team Leader

Information Systems Audits Group

██████████, Senior Team Leader

V. SCHEDULES

BLUECROSS BLUESHIELD OF MASSACHUSETTS
BOSTON, MASSACHUSETTS

CONTRACT CHARGES

CONTRACT CHARGES*	2006	2007	2008	2009	2010	TOTAL
A. <u>HEALTH BENEFIT CHARGES</u>						
PLAN CODE 200	\$195,692,210	\$217,859,966	\$230,971,312	\$248,320,732	\$269,889,136	\$1,162,733,356
MISCELLANEOUS PAYMENTS AND CREDITS	(314,667)	1,519,439	3,524,788	2,297,951	4,858,899	11,886,410
PLAN CODE 700	135,946,018	154,599,535	167,810,562	175,185,526	186,945,282	820,486,923
MISCELLANEOUS PAYMENTS AND CREDITS	0	0	0	0	0	0
TOTAL HEALTH BENEFIT CHARGES	\$331,323,561	\$373,978,940	\$402,306,662	\$425,804,209	\$461,693,317	\$1,995,106,689
B. <u>ADMINISTRATIVE EXPENSES</u>						
PLAN CODE 200	\$20,327,798	\$19,477,856	\$20,194,834	\$19,640,576	\$19,841,170	\$99,482,234
PRIOR PERIOD ADJUSTMENTS	0	(441,255)	(3,112)	(27,338)	(403)	(472,108)
TOTAL ADMINISTRATIVE EXPENSES	\$20,327,798	\$19,036,601	\$20,191,722	\$19,613,238	\$19,840,767	\$99,010,126
TOTAL CONTRACT CHARGES	\$351,651,359	\$393,015,541	\$422,498,384	\$445,417,447	\$481,534,084	\$2,094,116,815

* This audit only covered miscellaneous health benefit payments and credits and cash management from 2006 through February 28, 2011 and administrative expenses from 2006 through 2010.

BLUECROSS BLUESHIELD OF MASSACHUSETTS
BOSTON, MASSACHUSETTS

QUESTIONED CHARGES

AUDIT FINDINGS*	2005	2006	2007	2008	2009	2010	2011	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS								
1. Health Benefit Refunds	\$169	\$385	\$221	\$753	\$107	\$454	\$5	\$2,094
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$169	\$385	\$221	\$753	\$107	\$454	\$5	\$2,094
B. ADMINISTRATIVE EXPENSES								
1. Non-recurring Costs	\$0	(\$6,715)	\$0	\$0	\$0	\$81,186	\$1,213	\$75,684
2. Cost Center Allocation Error	0	0	0	0	0	3,381	0	3,381
3. Prior Period Adjustments	0	0	1,078	0	0	0	0	1,078
4. BlueCross BlueShield Association Dues	0	0	(930)	0	0	0	0	(930)
TOTAL ADMINISTRATIVE EXPENSES	\$0	(\$6,715)	\$148	\$0	\$0	\$84,567	\$1,213	\$79,213
C. CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$169	(\$6,330)	\$369	\$753	\$107	\$85,021	\$1,218	\$81,307

* We included lost investment income within audit findings A1 (\$2,094), B1 (\$1,213), B2 (\$80), and B3 (\$1,078).



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

February 6, 2012

Mr. [REDACTED] Group Chief
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**Reference: OPM DRAFT AUDIT REPORT
BlueCross BlueShield of Massachusetts
Audit Report Number 1A-10-11-11-058
(Dated December 21, 2011 and Received December 21, 2011)**

Dear [REDACTED]

This is our response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) concerning BlueCross BlueShield of Massachusetts. Our comments concerning the findings in the report are as follows:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Recoveries \$2,094

The Plan agreed that 32 refunds were not returned timely and has returned the applicable Lost Investment Income of \$2,094 on December 8, 2011. As stated in the report, the refunds were all returned to the Program before the OIG audit initiation letter was received. The Plan established the following steps to minimize delays to refunds to the LOCA:

- To determine if there has been a delay in the entry of the cash receipt, both Treasury Operations and Other Party Liability will review cash receipts to ensure there was no delay in the entry of the cash receipt. This will be done by comparing the actual check receipt date to the date that was entered into the cash subsystem.
- Reporting of cash receipts to Corporate Accounting will be done weekly, rather than bi-weekly.
- Checks belonging to Other Party Liability will be delivered twice a week instead of once a week to the FEP processing area in order to facilitate the processing of any FEP Claims.

B. ADMINISTRATIVE EXPENSES

1. Non-Recurring Cost \$75,684

The Plan agreed that the FEHBP was incorrectly charged for non-recurring costs in 2006 and 2010, resulting in net overcharges of \$75,684 to the FEP Program. The OIG verified that the Plan returned \$81,816 to the FEHBP on June 20, 2011 which included \$1,213 in Lost Investment Income. In addition, the Plan submitted a Prior Period Adjustment to the FEP Director's Office, related to undercharges on December 2, 2011, in the amount of \$6,715.

During 1st quarter 2012, the Plan will implement new procedures within the Cost Accounting department to review FEP non-recurring actual expenses and related accruals charged to FEP prior to the annual FEP Administrative Cost Submission to ensure FEP is not overcharged for the same type of non-recurring expenditures.

2. Cost Center Allocation Error \$3,301

The Plan agreed that the FEHBP was incorrectly allocated costs for one cost center, resulting in a \$3,301 overcharge to the Program. These funds were returned to the Program on December 15, 2011.

During 1st quarter 2012, the Plan will implement new procedures within the Cost Accounting department so that when a cost center allocation update is deemed by management to be adjusted on a year-to-date basis the appropriate year-to-date statistics will be utilized to ensure the FEP administrative charges are appropriately adjusted.

3. Prior Period Adjustments \$1,078

During a 2007 Control and Performance Review (CPR) the Plan returned funds to the Program based on two audit findings. However, the Plan did not include Lost Investment Income of \$1,078. The Plan agreed with this finding and returned the funds on December 8, 2011.

During 1st quarter 2012, the Plan will implement new procedures within the Cost Accounting department to review and ensure that all audit findings i.e. CPR, IPA due to the Program will include a calculation that determines Lost Investment Income (LII) and the LII will be refunded back to the Program timely and accurately.

4. BlueCross BlueShield Association Due (\$930)

The Plan agreed that an incorrect allocation ratio was used, resulting in a \$930 undercharge to the Program. The Plan submitted a Prior Period Adjustment on December 2, 2011 for the undercharge.

During 1st quarter 2012, the Plan will implement procedures within the Cost Accounting department so that when a cost center allocation update is deemed by management to be adjusted on a year-to-date basis the appropriate year-to-date statistics will be utilized to ensure the FEP administrative charges are appropriately adjusted.

C. CASH MANAGEMENT

The Plan accepted the overall conclusion that it had handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the findings pertaining to cash management noted in the "Miscellaneous Payments and Credits" section.

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

[REDACTED]

Executive Director
FEP Program Integrity

[REDACTED]