



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

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# Final Audit Report

Subject:

## AUDIT ON GLOBAL OMNIBUS BUDGET RECONCILIATION ACT OF 1993 CLAIMS FOR BLUECROSS AND BLUESHIELD PLANS

Report No. 1A-99-00-12-001

Date: July 16, 2012

--CAUTION--

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data which is protected by Federal law (18 U.S.C. 1905). Therefore, while this audit report is available under the Freedom of Information Act and made available to the public on the OIG webpage, caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

## AUDIT REPORT

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

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Global Omnibus Budget Reconciliation Act of 1993 Claims  
BlueCross and BlueShield Plans

REPORT NO. 1A-99-00-12-001

DATE: July 16, 2012



Michael R. Esser  
Assistant Inspector General  
for Audits

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## EXECUTIVE SUMMARY

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

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Global Omnibus Budget Reconciliation Act of 1993 Claims  
BlueCross and BlueShield Plans

REPORT NO. 1A-99-00-12-001

DATE: July 16, 2012

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at all BlueCross and BlueShield (BCBS) plans questions \$631,605 in health benefit charges. The BlueCross BlueShield Association and/or BCBS plans agreed with \$377,845 and disagreed with \$253,760 of the questioned charges.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered health benefit payments from August 1, 2008 through July 31, 2011 as reported in the Annual Accounting Statements. Specifically, we reviewed claims paid from August 1, 2008 through July 31, 2011 that were subject to the Omnibus Budget Reconciliation Act of 1993 (OBRA 93) pricing guidelines and potentially paid incorrectly.

We determined that the BCBS plans incorrectly paid 2,114 claim line payments that were priced or potentially should have been priced under the OBRA 93 pricing guidelines, resulting in net overcharges of \$566,609 to the FEHBP. Specifically, the BCBS plans overpaid 1,825 claim lines by \$643,932 and underpaid 289 claim lines by \$77,323. In addition, we identified 330 claim lines requiring retroactive overpayment adjustments of \$87,283 and 135 claim lines requiring retroactive underpayment adjustments of \$22,287 due to OBRA 93 pricing changes not being updated timely in the claims pricing system, resulting in net overpayments of \$64,996. In total, we determined that 2,155 claim lines were overpaid by \$731,215 and 424 claim lines were underpaid by \$99,610, resulting in net overcharges of \$631,605 to the FEHBP for these 2,579 claim lines.

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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 all BlueCross and BlueShield (BCBS) plans.

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

The Association has established a Federal Employee Program (FEP<sup>1</sup>) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member 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 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 management for the Association and each BCBS plan. Also, management of each BCBS plan is responsible for establishing and maintaining a system of internal controls.

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

This is our first global audit of Omnibus Budget Reconciliation Act of 1993 (OBRA 93) claims for the BCBS plans. Our preliminary results of the potential OBRA 93 claim payment errors were presented in detail in a draft report, dated September 30, 2011. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as the Appendix to this report. Also, additional documentation provided by the Association and BCBS plans on various dates through May 29, 2012 was considered in preparing our final report.

## **II. OBJECTIVE, SCOPE, AND METHODOLOGY**

### **OBJECTIVE**

The objective of this audit was to determine whether the BCBS plans complied with contract provisions relative to claims that were subject to the OBRA 93 pricing guidelines.

OBRA 93 limits the benefit payment for certain physician services provided to annuitants age 65 or older who are not covered under Medicare Part B. The FEHBP fee-for-service plans are required to limit the claim payment to the lesser of the amount equivalent to the Medicare Part B payment or billed charges.

### **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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit covered health benefit payments from August 1, 2008 through July 31, 2011 as reported in the Annual Accounting Statements. Using our data warehouse function, we performed a computer search on the BCBS claims database to identify claim lines paid from August 1, 2008 through July 31, 2011 that were subject to the OBRA 93 pricing guidelines and potentially paid incorrectly. Based on our claim error reports, we identified 469,082 claim lines, totaling \$45,861,887 in payments, that met this search criteria.<sup>2</sup> From this universe, we selected and reviewed a judgmental sample of 26,374 claim lines, totaling \$17,822,178 in payments, for the purpose of determining if these claim lines were correctly priced by Palmetto GBA (Palmetto), processed by the FEP Operations Center, and/or paid by the BCBS plans.<sup>3</sup> Our sample included all claim lines from this universe with amounts paid of \$350 or more and consisted of claim lines for 58 of the 63 BCBS plans.

We did not consider each BCBS plan's internal control structure in planning and conducting our auditing procedures. Our audit approach consisted mainly of substantive tests of transactions and not tests of controls. Therefore, we do not express an opinion on each BCBS plan's system of internal controls taken as a whole.

We also conducted tests to determine whether the BCBS plans had complied with the contract and the laws and regulations governing the FEHBP as they relate to OBRA 93 claim payments. The results of our tests indicate that, with respect to the items tested, the BCBS plans did not fully comply with the provisions of the contract relative to OBRA 93 claim payments.

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<sup>2</sup> This universe excludes potential OBRA 93 claim payment errors for BCBS plans that were previously audited by the OIG during this period.

<sup>3</sup> Palmetto (an OBRA 93 pricing vendor) calculates the pricing amounts for the OBRA 93 claim lines on behalf of the FEP Operations Center.

Exceptions noted in the areas reviewed are set forth in detail in the “Audit Finding and Recommendations” section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that the BCBS plans 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, the FEP Operations Center, the BCBS plans, Palmetto, and the Centers for Medicare and Medicaid Services (CMS). 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 objective.

The audit was performed at our offices in Washington, D.C.; Cranberry Township, Pennsylvania; and Jacksonville, Florida from September 2011 through May 2012.

## **METHODOLOGY**

To test each BCBS plan’s compliance with the FEHBP health benefit provisions, we selected a judgmental sample of claim lines that were subject to the OBRA 93 pricing guidelines and potentially paid incorrectly, which were identified in a computer search of the BCBS claims database. Specifically, we selected for review 26,374 claim lines, totaling \$17,822,178 in payments (from a universe of 469,082 claim lines, totaling \$45,861,887 in payments), that were subject to the OBRA 93 pricing guidelines and potentially paid incorrectly. Our sample consisted of all claim lines with amounts paid of \$350 or more that met our search criteria.

The sample selections were submitted to each applicable BCBS plan for their review and response. For each plan, we then conducted a limited review of their agreed responses and an expanded review of their disagreed responses to determine the appropriate questioned amount. We did not project the sample results to the universe of claim lines that were subject to the OBRA 93 pricing guidelines and potentially paid incorrectly.

The determination of the questioned amount is based on the FEHBP contract, the Service Benefit Plan brochure, the Association’s FEP administrative manual, the FEP Operations Center’s OBRA 93 pricing amounts (calculated by Palmetto), and various manuals and other documents available from CMS that explain Medicare/OBRA 93 pricing.

### **III. AUDIT FINDING AND RECOMMENDATIONS**

#### **Omnibus Budget Reconciliation Act of 1993 Review**

**\$631,605**

The BCBS plans incorrectly paid 2,114 claim lines that were priced or potentially should have been priced under the OBRA 93 pricing guidelines, resulting in net overcharges of \$566,609 to the FEHBP. Specifically, the BCBS plans overpaid 1,825 of these claim lines by \$643,932 and underpaid 289 of these claim lines by \$77,323. In addition to these claim payment errors, we identified 330 claim lines requiring retroactive overpayment adjustments of \$87,283 and 135 claim lines requiring retroactive underpayment adjustments of \$22,287 due to OBRA 93 pricing changes not being updated timely in Palmetto's pricing system, resulting in net overpayments of \$64,996. In total, we determined that 2,155 claim lines were overpaid by \$731,215 and 424 claim lines were underpaid by \$99,610, resulting in net overcharges of \$631,605 to the FEHBP for these 2,579 claim lines.

The 2011 BlueCross and BlueShield Service Benefit Plan brochure, page 122, Primary Payer Chart, illustrates when Medicare is the primary payer. In addition, page 24 of the brochure states, "We limit our payment to an amount that supplements the benefits that Medicare would pay under . . . Medicare Part B (Medical Insurance), regardless of whether Medicare pays."

Contract CS 1039, Part II, section 2.6 (g) states, "The benefits payable by this Plan shall be determined, on a claim by claim basis, only for those claims in excess of \$100, except where Medicare is the primary payer of benefits."

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." Part II, section 2.3 (g) states, "If the Carrier or OPM determines that a Member's claim has been paid in error for any reason . . . the Carrier shall make a prompt and diligent effort to recover the erroneous payment . . . ."

OBRA 93 limits the benefit payment for certain physician services provided to annuitants age 65 or older who are not covered under Medicare Part B. The FEHBP fee-for-service plans are required to limit the claim payment to the lesser of the amount equivalent to the Medicare Part B payment or billed charges. Palmetto (an OBRA 93 pricing vendor) calculates the pricing amounts for the OBRA 93 claim lines on behalf of the FEP Operations Center.

We performed a computer search on the BCBS claims database to identify claim lines paid from August 1, 2008 through July 31, 2011 that were subject to the OBRA 93 pricing guidelines and potentially paid incorrectly. Specifically, we identified all OBRA 93 claim line payments that were processed with an "OFMA" override code or a procedure containing two or more modifiers. In total, we identified 469,082 claim lines, totaling \$45,861,887 in payments, that met this search criteria. From this universe, we selected for review a judgmental sample of 26,374 claim lines, totaling \$17,822,178 in payments, for the purpose of determining if these claim lines were correctly priced by Palmetto, processed by the FEP Operations Center, and/or paid by the BCBS plans. Our sample included all claim line payments of \$350 or more from this universe and consisted of claim line payments for 58 of the 63 BCBS plans.

Using a program developed by CMS to price OBRA 93 claims, we recalculated the claim payment amounts for the claim lines in our sample that were subject to and/or processed as OBRA 93. We also reviewed the BCBS plans' responses for the claim lines in our sample as well as the FEP Operations Center's OBRA 93 pricing amounts, which were calculated by Palmetto on behalf of the FEP Operations Center. Based on our review, we determined that 2,114 claim lines were paid incorrectly, resulting in net overcharges of \$566,609 to the FEHBP. Specifically, the BCBS plans overpaid 1,825 claim lines by \$643,932 and underpaid 289 claim lines by \$77,323.

The claim payment errors resulted from the following:

- The FEP Operations Center did not price 1,436 claim lines according to the OBRA 93 pricing guidelines, resulting in net overcharges of \$443,497 to the FEHBP. Specifically, the BCBS plans overpaid 1,300 claim lines by \$488,075 and underpaid 136 claim lines by \$44,578. These errors resulted from the FEP Direct System generating the incorrect "OFM(x)" override code when the system did not receive a pricing amount from Palmetto. Consequently, these claim lines inadvertently bypassed the OBRA 93 pricing, resulting in incorrect pricing by the FEP Operations Center. In each instance, the FEP Operations Center used the allowable charge (covered charge minus preferred provider allowance/participating savings amount) instead of the Medicare allowance to calculate the claim line payment.
- The BCBS plans incorrectly paid 527 claim lines due to Palmetto's system using the incorrect procedure allowances, pricing methods, or modifier reimbursement percentages when pricing these OBRA 93 claim lines. Consequently, the BCBS plans overpaid 380 claim lines by \$94,703 and underpaid 147 claim lines by \$30,985, resulting in net overcharges of \$63,718 to the FEHBP.
- The BCBS plan incorrectly paid 121 claim lines twice due to Palmetto's system pricing claims on a claim line by claim line basis and the FEP Direct System not properly bundling the multiple procedure claim line charges. In each instance, Palmetto priced the first procedure code, identified by modifier 50, at 150 percent and the second procedure code incorrectly at 100 percent (instead of pricing the second procedure code at \$0). Consequently, the BCBS plans overpaid 117 claim lines by \$51,428 and underpaid 4 claim lines by \$1,062, resulting in net overcharges of \$50,366 to the FEHBP.
- The BCBS plans incorrectly paid 30 claim lines due to the plan's local processing systems using the incorrect procedure allowances, pricing methods, or modifier reimbursement percentages when pricing these claim lines. Consequently, the BCBS plans overpaid 28 claim lines by \$9,726 and underpaid 2 claim lines by \$698, resulting in net overcharges of \$9,028 to the FEHBP.

In addition to these claim payment errors, we identified 465 claim lines requiring retroactive payment adjustments due to CMS OBRA 93 pricing changes not being updated timely in Palmetto's pricing system. After Palmetto repriced these claim lines on behalf of the FEP Operations Center, using the applicable CMS pricing updates, we determined that 330 of these claim lines required overpayment adjustments of \$87,283 and 135 of these claim lines required

underpayment adjustments of \$22,287, resulting in net overpayment adjustments of \$64,996 to the FEHBP. The BCBS plans are required to pursue due diligence and initiate overpayment recoveries for the retroactive adjustments.

In total, we determined that 2,155 claim lines were overpaid by \$731,215 and 424 claim lines were underpaid by \$99,610, resulting in net overcharges of \$631,605 to the FEHBP for these 2,579 claim lines (See Schedule A for a summary of these questioned charges by BCBS plan for the OBRA 93 sample).<sup>4</sup> Of these questioned charges:

- \$56,385 (or 9 percent), representing 382 claim line overpayments, were already identified by the BCBS plans before receiving our audit request (i.e., sample of OBRA 93 claims) on September 16, 2011. However, since the BCBS plans had not completed the recovery process and/or adjusted these claims by the audit request due date (i.e., December 16, 2011), we are continuing to question these claim payment errors.
- \$55,734 (or 9 percent), representing 155 claim line overpayments, were identified by the BCBS plans after the end of our audit scope (i.e., July 31, 2011) but before receiving our audit request on September 16, 2011, and also recovered and returned to the FEHBP by the audit request due date (i.e., December 16, 2011). However, since the BCBS plans had not identified these overpayments and initiated recovery efforts by the end of our audit scope, we are continuing to question these claim payment errors.<sup>5</sup>
- \$519,486 (or 82 percent), representing 2,042 claim line overpayments, were identified as a result of our audit.

In addition to the questioned charges, we identified the following procedural issue requiring corrective action by the Association and/or FEP Operations Center:

For the period August 1, 2008 through February 29, 2012, the BCBS plans processed \$12,914,382 in payments for OBRA 93 claim lines that contained procedure modifier 51, 62, or 66. Under the OBRA 93 pricing guidelines, the Medicare Part B payment limits the Medicare allowance for multiple procedures (modifier 51) to 50 percent and multiple surgeons (modifiers 62 and 66) to 62.5 percent. From this universe, we calculated potential estimated savings of \$6,338,238 to the FEHBP, if the FEP Operations Center would have applied the multiple procedure or surgeon discount to the Medicare allowance. Specifically, we calculated \$5,981,378 in potential estimated savings for claim lines with modifier 51 and \$356,860 in potential estimated savings for claim lines with modifiers 62 and/or 66. As a result, we estimate potential savings of \$1.8 million a year to the FEHBP if the FEP Operations Center would start applying the multiple procedure and surgeon discounts to claim lines subject to OBRA 93 pricing.

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<sup>4</sup> In addition, there were 75 claim line overpayments, totaling \$59,880, that were identified by the BCBS plans by the end of our audit scope (i.e., July 31, 2011) and adjusted by the audit request due date (i.e., December 16, 2011). Since these overpayments were already identified by the BCBS plans before the end of our audit scope and adjusted by the audit request due date, we did not question these claim payments errors in the final report.

<sup>5</sup> These claim line overpayments were also identified by the BCBS plans after the Association received our audit notification letter, dated July 1, 2011.

During the implementation of OBRA 93, OPM approved the Association's contract with the Travelers Insurance Company (an OBRA 93 pricing vendor) to price OBRA 93 claims on a line-by-line basis. Since the inception of that contract, OPM has continued to approve this same type of pricing methodology used by the OBRA 93 pricing vendors, including Palmetto.<sup>6</sup> The current contract with Palmetto states that Palmetto will not apply special pricing discounts for multiple procedures (modifier 51) or surgeons (modifiers 62 and 66). Although OPM approved this contract pricing methodology used by Palmetto, the BCBS plans are required to limit the claim payment to the amount equivalent to the Medicare Part B payment under the OBRA 93 pricing guidelines, which includes applying multiple procedure and surgeon discounts.

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

In response to the draft report, the Association states, "After reviewing the OIG listing of potential OBRA '93 claim payment errors . . . BCBSA agrees that a net total of \$304,442 in OBRA '93 overpayments occurred (\$212,652 in underpayments and \$517,094 in overpayments). Where possible, recovery has been initiated on these claim overpayments."

For the contested amount, the Association states that \$331,201 of the questioned charges were claim overpayments, but these errors were identified and/or corrected by the BCBS plans before the audit started. The Association also contests the overpayments where the BCBS plans state the claims were correctly OBRA 93 priced when initially paid.

Regarding corrective actions, the Association states, "To reduce the OBRA 93 pricing errors from occurring in the future, FEP modified the FEP Claims System as of January 1, 2012 to provide Plans with detail instructions on how to correct various OBRA '93 pricing errors . . . The FEP Director's Office System Wide Claims Review process was updated to include OBRA '93 claims that could not be priced by Palmetto for Plan review and resubmission for pricing to Palmetto. Also, during 2012, the FEP Operations Center added Plan OBRA 93 training to the FEPOC regional training program. To further reduce system OBRA '93 claim payment errors, the FEP Claims System will be updated by 4<sup>th</sup> quarter 2012 to provide Plans the proper instructions for correcting situations where claims cannot be priced by Palmetto (i.e., when Plans submit inconsistent modifiers)."

### **OIG Comments:**

After reviewing the Association's response and additional documentation provided by the BCBS plans, we revised the questioned charges from our draft report to \$631,605. If the BCBS plans identified the OBRA 93 claim payment errors and initiated recovery efforts by the end of our audit scope (i.e., by July 31, 2011) and completed the recovery process (i.e., adjusted and/or voided the claims and recovered and returned the overpayments to the FEHBP) by the audit request due date (i.e., by December 16, 2011), we did not question these claim payment errors in the final report. Based on the Association's response and the BCBS plans' additional documentation, we determined that the Association and/or plans agree with \$377,845 and disagree with \$253,760 of the revised questioned charges. Although the Association only agrees

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<sup>6</sup> The original OBRA 93 pricing vendor was Travelers Insurance Company. However, Palmetto is the current OPM approved vendor that is used to price OBRA 93 claims by all of the FEHBP fee-for-service plans.

with \$304,442 in its written response, the BCBS plans' documentation supports concurrence with \$377,845.

Based on the Association's response and/or the BCBS plans' documentation, the contested amount of \$253,760 represents the following items:

- \$78,198 of the contested amount represents 202 claim line overpayments that the BCBS plans agree were paid incorrectly. However, due to overpayment recovery time limitations with providers, the plans state that these overpayments are uncollectible. The plans did not provide sufficient documentation to support the overpayment recovery time limitations with providers or the attempted recovery efforts for these overpayments. Therefore, we are continuing to question this amount in the final report.
- \$63,443 of the contested amount represents 188 claim line overpayments where Palmetto and/or the FEP Operations Center incorrectly calculated the claim line amounts. In most instances, these calculation errors resulted in claim lines being paid twice by BCBS plans, due to the FEP Direct System not properly bundling the multiple procedure (modifier 50) claim line charges. When responding to our audit request, the BCBS plans stated that these claim lines were paid correctly. However, since the plans did not provide sufficient documentation to support these contested items, we are continuing to question this amount in the final report.
- \$56,385 of the contested amount represents 382 claim line overpayments where the BCBS plans initiated recovery efforts before receiving our audit request (i.e., September 16, 2011) but had not recovered the overpayments and/or adjusted the claims by the audit request due date (i.e., December 16, 2011). Since these overpayments had not been recovered and returned to the FEHBP by the audit request due date, we are continuing to question this amount in the final report.
- \$55,734 of the contested amount represents 155 claim line overpayments where the BCBS plans initiated recovery efforts after the end of our audit scope (i.e., July 31, 2011) but before receiving our audit request (i.e., September 16, 2011), and also completed the recovery process and adjusted the claims by the audit request due date (i.e., December 16, 2011). However, since the recoveries for these overpayments were initiated after the end of our audit scope, we are continuing to question this amount in the final report.

### **Recommendation 1**

We recommend that the contracting officer disallow \$643,932 for claim overcharges and verify that the BCBS plans return all amounts recovered to the FEHBP.

### **Recommendation 2**

We recommend that the contracting officer allow the BCBS plans to charge the FEHBP \$77,323 if additional payments are made to the providers to correct the underpayments. However, before making any additional payment(s) to a provider, the contracting officer should require the BCBS plan to first recover any questioned overpayment(s) for that provider.

### **Recommendation 3**

For the claims requiring retroactive overpayment adjustments due to the CMS OBRA 93 pricing updates, we recommend that the contracting officer require the BCBS plans to initiate recoveries of \$87,283 for these overpayments and verify that the BCBS plans return all amounts recovered to the FEHBP.

### **Recommendation 4**

For the claims requiring retroactive underpayment adjustments due to the CMS OBRA 93 pricing updates, we recommend that the contracting officer allow the BCBS plans to charge the FEHBP \$22,287 if additional payments are made to the providers to correct these underpayments. However, before making any additional payment(s) to a provider, the contracting officer should require the BCBS plan to first recover any questioned overpayment(s) for that provider.

### **Recommendation 5**

Although the Association has developed a corrective action plan to reduce the OBRA 93 claim payment errors, we recommend that the contracting officer instruct the Association to ensure that all BCBS plans are following this action plan. We also recommend that the contracting officer ensure that the Association's corrective actions for improving the prevention and detection of the OBRA 93 claim payment errors are being implemented. These corrective actions are included in the Association's response to the draft report.

### **Recommendation 6**

Due to the potential estimated savings to the FEHBP, we recommend that the contracting officer instruct the Association to have the FEP Operations Center develop edits in the FEP Direct System that apply the applicable multiple procedure (modifier 51) and surgeon (modifiers 62 and 66) discounts to OBRA 93 claim lines, after receiving the OBRA 93 pricing amounts from Palmetto. The FEP Operations Center should also develop an additional edit for processing OBRA 93 claims with multiple procedures (modifier 50) to prevent duplicate payments.

## **IV. MAJOR CONTRIBUTORS TO THIS REPORT**

### Experience-Rated Audits Group

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February 10, 2012

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**Reference: OPM DRAFT AUDIT REPORT RESPONSE  
Global OBRA '93 Audit  
Report No. 1A-99-00-12-001**

Dear [redacted]:

This is in response to the above - referenced U.S. Office of Personnel Management (OPM) Draft Audit Report concerning the Global Coordination of Benefits Audit for claims paid from August 1, 2008 through July 31, 2011. Our comments concerning the findings in the report are as follows:

**Recommendation 1 and 2:**

**Global OBRA '93 Questioned Amount \$17,822,178**

OPM OIG recommended that the contracting officer disallow the claim overpayments and have the BCBS plans return all amounts recovered to the FEHBP. After reviewing the OIG listing of potential OBRA '93 claim payment errors totaling \$17,822,178 (26,374 line items), BCBSA agrees that a net total of \$304,442 in OBRA '93 overpayments occurred (\$212,652 in underpayments and \$517,094 in overpayments). Where possible, recovery has been initiated on these claim overpayments. These OBRA '93 net claim overpayments occurred as a result of the following:

- System pricing errors occurred where the OBRA '93 vendor Palmetto was unable to price the claim because the correct information needed to price the claim was not provided by the FEP Claims System for \$236,217 in net overpayments.
- Incorrect local Plan fee schedule amount was applied to the claim for \$28,631 in net overpayments.
- Provider billing errors caused payment errors for \$7,514 in net overpayments.
- Processor errors caused payment errors for \$8,030 in net overpayments.
- Pricing updates from Palmetto occurred subsequent to initial payment that resulted in updated pricing for \$19,852 in net overpayments.

[redacted]  
February 10, 2012  
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- Modifier pricing was incorrectly applied by Palmetto for \$4,198 in net overpayments.

To reduce the OBRA '93 pricing errors from occurring in the future, FEP modified the FEP Claims System as of January 1, 2012 to provide Plans with detail instructions on how to correct various OBRA '93 pricing errors (i.e., on instructions on correcting addresses needed to properly OBRA '93 price claims, the OBRA '93 vendor pricing all applicable modifiers, etc.). The FEP Director's Office System Wide Claims Review process was updated to include OBRA '93 claims that could not be priced by Palmetto for Plan review and resubmission for pricing to Palmetto. Also, during 2012, the FEP Operations Center added Plan OBRA '93 training to the FEPOC regional training program. To further reduce system OBRA '93 claim errors, the FEP Claims System will be updated by 4<sup>th</sup> quarter 2012 to provide Plans the proper instructions for correcting situations where claims cannot be priced by Palmetto (i.e., when Plans submit inconsistent modifiers).

For the remaining \$17,305,207 in potential claim overpayments identified by the OIG, \$16,974,006 in claim payments were paid correctly and \$331,201 were initially paid in error but the error was identified and/or corrected before the audit notification letter was received on September 15, 2011. Plans disagreed that the remaining claims were paid in error due to the following:

- Plan local allowance correctly used because the provider was not an approved Medicare provider or the procedure code is not on the CMS fee schedule for claims totaling \$3,352,505.
- Claims totaling \$13,621,501 were correctly OBRA '93 priced when initially paid.

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

Sincerely,

[redacted]  
Executive Director  
FEP Program Integrity

cc: [redacted], OPM  
[redacted], FEP  
[redacted], FEP

Attachment