



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

Final Audit Report

Subject:

AUDIT OF HAWAII MEDICAL SERVICE ASSOCIATION HONOLULU, HAWAII

Report No. 1D-87-00-12-041

Date: February 21, 2013

--CAUTION--

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AUDIT REPORT

Federal Employees Health Benefits Program
Experience-Rated Health Maintenance Organization

Hawaii Medical Service Association
Contract CS 1058 Plan Code 87
Honolulu, Hawaii

REPORT NO. 1D-87-00-12-041

DATE: 2/21/13



Michael R. Esser
Assistant Inspector General
for Audits

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EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Experience-Rated Health Maintenance Organization

Hawaii Medical Service Association
Contract CS 1058 Plan Code 87
Honolulu, Hawaii

REPORT NO. 1D-87-00-12-041 DATE: 2/21/13

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Hawaii Medical Service Association (Plan), in Honolulu, Hawaii, questions \$479,336 in health benefit charges, excess working capital funds, and lost investment income (LII). The Plan agreed (A) with this questioned amount.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered health benefit refunds and recoveries from 2007 through 2011 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds for contract years 2007 through 2011.

The audit results are summarized as follows:

HEALTH BENEFIT REFUNDS AND RECOVERIES

- **Pharmacy Drug Rebates (A)** **\$264,191**

Our audit determined that the Plan had not returned pharmacy drug rebates of \$248,416 to the FEHBP. As a result of this finding, the Plan returned \$264,191 to the FEHBP, consisting of \$248,416 for the questioned drug rebates and \$15,775 for LII on these rebates.

- **Voucher Deductions (A)** **\$50,142**

In six instances, the Plan made voucher deductions to offset FEHBP refunds and recoveries against non-FEHBP claims, resulting in \$129,863 not being recovered and returned to the FEHBP. In four instances, the Plan made voucher deductions to offset non-FEHBP refunds and recoveries against FEHBP claims, resulting in \$90,141 being incorrectly returned to the FEHBP. As a result of this finding, the Plan returned \$50,142 to the FEHBP, consisting of \$39,722 (net) for the questioned voucher deductions and \$10,420 for applicable LII.

- **Health Benefit Refunds (A)** **(\$67,001)**

In four instances, the Plan had inadvertently credited the FEHBP \$67,001 for health benefit refunds. As a result of this finding, the Plan recovered these funds from the FEHBP.

CASH MANAGEMENT

- **Excess Working Capital (A)** **\$232,004**

The Plan did not correctly calculate the working capital (WC) deposit when making a WC adjustment on November 14, 2011. As a result, the Plan held a WC deposit with an excess amount of \$232,004 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments and administrative expenses. On May 22, 2012, the Plan adjusted the WC deposit to only maintain an amount necessary to meet its daily cash needs.

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	i
I. INTRODUCTION AND BACKGROUND	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY	3
III. AUDIT FINDINGS AND RECOMMENDATIONS	5
A. <u>HEALTH BENEFIT REFUNDS AND RECOVERIES</u>	5
1. Pharmacy Drug Rebates.....	5
2. Voucher Deductions.....	6
3. Health Benefit Refunds.....	8
B. <u>CASH MANAGEMENT</u>	9
1. Excess Working Capital.....	9
IV. MAJOR CONTRIBUTORS TO THIS REPORT	11
V. SCHEDULE A – HEALTH BENEFIT CHARGES AND AMOUNTS QUESTIONED	
APPENDIX (Hawaii Medical Service Association response, dated August 24, 2012, to the draft audit report)	

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 Hawaii Medical Service Association (Plan). The Plan is located in Honolulu, Hawaii.

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 Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.¹ Enrollment is open to all federal employees and annuitants in the Plan's service area, which includes all of Hawaii.

The Plan's contract (CS 1058) 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.

All findings from our previous audit of the Plan (Report No. 1D-87-00-00-030, dated January 31, 2001) for contract years 1995 through 1999 have been satisfactorily resolved.

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.

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; and were presented in detail in a draft report, dated August 2, 2012. 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. Also, additional documentation provided by the Plan on various dates through January 18, 2013 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:

Health Benefit Refunds and Recoveries

- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned promptly 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.

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 Plan's Annual Accounting Statements for contract years 2007 through 2011. During this period, the Plan paid approximately \$1.1 billion in health benefit charges (See Schedule A). Specifically we reviewed health benefit refunds and recoveries (e.g., refunds, provider audit recoveries, fraud recoveries, and pharmacy drug rebates) and cash management activities (e.g., letter of credit account drawdowns, working capital adjustments, and interest income) from 2007 through 2011.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected, we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan's internal control structure and its operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on the Plan's system of internal controls taken as a whole.

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws

and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various 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 available was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in Honolulu, Hawaii from May 7, 2012 through May 25, 2012. 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 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 health benefit refunds and recoveries. We also judgmentally selected and reviewed 99 high dollar health benefit refunds (cash receipts and wire transfers), totaling \$4,512,480 (from a universe of 9,052 cash receipt and wire transfer refunds, totaling \$5,362,482); 45 high dollar health benefit refunds that were recovered and returned to the FEHBP through voucher deductions, totaling \$11,417,889 (from a universe of 123,172 voucher deduction refunds, totaling \$54,815,508); 22 high dollar provider audit recoveries, totaling \$160,778 (from a universe of 61 recoveries, totaling \$221,110); 15 high dollar fraud recoveries, totaling \$993,197 (from a universe of 242 recoveries, totaling \$2,609,162); and all monthly and/or quarterly pharmacy drug rebates, totaling \$24,167,383, to determine if refunds and recoveries were promptly returned to the FEHBP.² The results of these samples were not projected to the universe of health benefit refunds and recoveries.

We also reviewed the Plan's cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1058 and applicable laws and regulations.

² The samples of health benefit refunds included cash receipts and wire transfers of \$4,000 or more and the five highest dollar voucher deductions from each of the nine voucher deduction schedules that were provided by the Plan. For provider audit recoveries, the sample consisted of all recoveries of \$5,000 or more. For fraud recoveries, the sample consisted of all recoveries of \$50,000 or more.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. HEALTH BENEFIT REFUNDS AND RECOVERIES

1. Pharmacy Drug Rebates

\$264,191

Our audit determined that the Plan had not returned pharmacy drug rebates of \$248,416 to the FEHBP. As a result of this finding, the Plan returned \$264,191 to the FEHBP, consisting of \$248,416 for the questioned drug rebates and \$15,775 for lost investment income (LII) on these rebates.

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

Contract CS 1058, 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.”

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 2007 through 2011, there were 64 monthly and/or quarterly pharmacy drug rebate amounts from the Plan’s pharmacy benefit managers, totaling \$24,167,383, for the FEHBP. We selected and reviewed all of these drug rebates for the purpose of determining if the Plan properly returned these funds to the FEHBP.

Based our review, we determined that the Plan had not returned two monthly pharmacy drug rebate amounts, totaling \$248,416, to the FEHBP. The Plan initially returned these drug rebates to the FEHBP using estimated amounts on August 27, 2007 and August 25, 2008, but later reversed out these estimates during the true-up process on November 30, 2009 and April 21, 2010, respectively. However, after the true-up process, the Plan did not return the actual drug rebate amounts to the FEHBP. As a result of this finding, the Plan returned \$264,191 to the FEHBP, consisting of \$248,416 for these questioned drug rebates and \$15,775 for applicable LII. We reviewed and accepted the Plan’s LII calculation.

Plan’s Response:

The Plan agrees with this finding. The Plan states that the questioned pharmacy drug rebates and applicable LII were returned to the FEHBP on June 29, 2012.

The Plan also states, “The findings were directly related to a previous accounting process which was put in place to supplement the inadequate reporting capabilities by our previous pharmacy benefit manager (PBM) contracted through 2009. With the transfer in 2010 to a new PBM, HMSA was able to obtain detailed rebate reports specific for FEHBP. This allowed HMSA to eliminate the need for estimation and true-ups and gave us the ability to provide correct rebate credits back to FEHBP on a timely basis. HMSA would like to note that the OPM auditors found no errors for rebates with the new PBM, which is consistent with the implementation of the new reports and internal processes.”

OIG Comments:

The Plan provided documentation supporting that the questioned pharmacy drug rebates of \$248,416 and applicable LII of \$15,775 were returned to the FEHBP.

Recommendation 1

Since we verified that the Plan returned \$248,416 to the FEHBP for the questioned pharmacy drug rebates, no further action is required for this amount.

Recommendation 2

Since we verified that the Plan returned \$15,775 to the FEHBP for LII on the questioned pharmacy drug rebates, no further action is required for this LII amount.

2. Voucher Deductions \$50,142

In six instances, the Plan made voucher deductions to offset FEHBP refunds and recoveries against non-FEHBP claims, resulting in \$129,863 not actually being recovered and returned to the FEHBP. In four instances, the Plan made voucher deductions to offset non-FEHBP refunds and recoveries against FEHBP claims, resulting in \$90,141 being incorrectly returned to the FEHBP. As a result of this finding, the Plan returned \$50,142 to the FEHBP, consisting of \$39,722 (net) for the questioned voucher deductions and \$10,420 for applicable LII.

As previously stated under audit finding A1, the Plan is required to return health benefit refunds and recoveries to the FEHBP with applicable LII.

For the period 2007 through 2011, the following health benefit refunds and recoveries were recovered and returned to the FEHBP through voucher deductions (based on the Plan’s schedules): 123,172 refunds, totaling \$54,815,508; 61 provider audit recoveries, totaling \$221,110; and 242 fraud recoveries, totaling \$2,609,162. From this universe, we selected and reviewed judgmental samples of 45 health benefit refunds, totaling \$11,417,889 (sample included the 5 highest dollar refunds from each of the 9 voucher deduction schedules that were provided by the Plan); 22 provider audit recoveries, totaling \$160,778 (sample included all recoveries of \$5,000 or more); and 15 fraud recoveries, totaling \$993,197 (sample included all recoveries of \$50,000 or more), for the

purpose of determining if the Plan properly returned these refunds and recoveries to the FEHBP.

We noted that the Plan's payments to providers from 2007 through 2009 included charges for approved claims, net of refund voucher deductions, for all lines of business. As a result, voucher deductions that were made to recover FEHBP refunds and recoveries were occasionally offset against claims for other lines of business, resulting in amounts not being recovered and returned to the FEHBP. Similarly, voucher deductions from other lines of business were occasionally offset against FEHBP claims, resulting in undercharges to the FEHBP for approved claims.

Based on our review of voucher deductions made to recover health benefit refunds, provider audit recoveries, and fraud recoveries, we identified the following exceptions that were all associated with the period 2007 through 2009:

- The Plan had not returned three fraud recoveries, totaling \$109,118, to the FEHBP through voucher deductions. These exceptions occurred because the Plan made voucher deductions to offset FEHBP recoveries against non-FEHBP claims.
- The Plan had not returned three provider audit recoveries, totaling \$20,745, to the FEHBP through voucher deductions. These exceptions occurred because the Plan made voucher deductions to offset FEHBP recoveries against non-FEHBP claims. Also, while reviewing these recoveries, we found voucher deductions from other lines of business that were offset against FEHBP claims, resulting in undercharges of \$68,065 to the FEHBP.
- While reviewing one FEHBP health benefit refund, we found voucher deductions from other lines of business that were offset against FEHBP claims, resulting in undercharges of \$22,076 to the FEHBP.

The Plan returned \$50,142 to the FEHBP as a result of this finding, consisting of \$39,722 (net) for the questioned voucher deductions and \$10,420 for applicable LII. We reviewed and accepted the Plan's LII calculation.

Plan's Response:

The Plan agrees with this finding. The Plan states that the questioned voucher deductions and applicable LII were returned to the FEHBP on June 29, 2012.

The Plan also states, "The findings were related to voucher deductions for recoveries due back to HMSA from our providers. Prior to 2010, any voucher deductions impacting our providers did not specify recoveries by line of business. Beginning in 2010, improved reporting allowed HMSA to apply deductions against future services provided specifically to FEHBP members. In addition, HMSA created a separate bank account for FEHBP so refunds can be tracked and monitored closely. HMSA would like to note that

the OPM auditors found no errors for the refund activity in 2011 which is consistent with the implementation of the new reports, bank account, and internal processes.”

OIG Comments:

The Plan provided documentation supporting that the questioned voucher deductions of \$39,722 (net) and applicable LII of \$10,420 were returned to the FEHBP.

Recommendation 3

Since we verified that the Plan returned \$39,722 (net) to the FEHBP for the questioned voucher deductions, no further action is required for this amount.

Recommendation 4

Since we verified that the Plan returned \$10,420 to the FEHBP for LII on the questioned voucher deductions, no further action is required for this LII amount.

3. Health Benefit Refunds (\$67,001)

The Plan inadvertently credited the FEHBP \$67,001 for four health benefit refunds. As a result of this finding, the Plan recovered these funds from the FEHBP.

As previously stated under audit finding A1, the Plan is only required to return applicable health benefit refunds to the FEHBP.

For the period 2007 through 2011, there were 9,052 health benefit refunds, consisting of cash receipts and wire transfers, totaling \$5,362,482. From this universe, we selected and reviewed a judgmental sample of 99 health benefit refunds, totaling \$4,512,480, for the purpose of determining if the Plan promptly returned these funds to the FEHBP. The sample included all refund cash receipts and wire transfers of \$4,000 or more.

Based on our review, we identified the following exceptions:

- The Plan voided three claim payment checks, totaling \$26,201, before these checks were presented for payment. However, the Plan’s system-generated claim reimbursement report identified these voided check amounts as credits to the FEHBP. As a result, the Plan mistakenly returned \$26,201 to the FEHBP for these checks through letter of credit account (LOCA) drawdown adjustments.
- In one instance, the Plan deposited a refund check of \$54,400 into the dedicated investment account and then returned these funds to the FEHBP through a LOCA drawdown adjustment. However, we noted that the FEHBP’s portion of this refund check was only \$13,600. As a result, the Plan returned \$40,800 too much to the FEHBP.

As a result of this finding, the Plan recovered \$67,001 (\$26,201 plus \$40,800) from the FEHBP for the four health benefit refunds that were inadvertently credited to the FEHBP.

Plan’s Response:

The Plan agrees with this finding. To recover the questioned funds, the Plan withdrew \$67,001 from the LOCA on June 29, 2012.

The Plan states, “The findings related to insufficient reporting of voided and refund checks for our providers. A new claims system and accounting processes implemented in 2008 and 2012, respectively, closely monitor and identify voided and refund checks by source and line of business. This will ensure accurate withdrawal and deposits into the FEHBP LOCA.”

OIG Comments:

The Plan provided documentation supporting the withdrawal of \$67,001 from the LOCA to recover the funds that were inadvertently credited to the FEHBP.

Recommendation 5

Since we verified that the Plan recovered \$67,001 from the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

B. CASH MANAGEMENT

1. Excess Working Capital \$232,004

The Plan did not correctly calculate the working capital (WC) deposit when making a WC adjustment on November 14, 2011. As a result, the Plan held a WC deposit with an excess amount of \$232,004 over the amount needed to meet the Plan’s daily cash needs for FEHBP claim payments and administrative expenses.

OPM’s “Letter of Credit (LOC) System 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.”

In 2010 and 2011, the Plan regularly evaluated the base WC deposit amount and made several adjustments. The Plan made the last WC adjustment on November 14, 2011 to increase its WC balance to \$3,256,377. To determine if the Plan maintained an adequate WC deposit, we recalculated the Plan’s last WC balance and determined that, as of November 14, 2011, the Plan should have only maintained a WC balance of \$3,024,373.

Therefore, the Plan held a WC balance with an excess amount of \$232,004 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments and administrative expenses. This excess WC amount occurred because the Plan used an incorrect checks cleared amount when calculating the new WC deposit.

Since the Plan maintained these excess funds in an interest-bearing account and timely credited the interest earned on these funds to the FEHBP, no LII is due the FEHBP. During our audit fieldwork, we verified that the Plan recalculated and adjusted the WC deposit correctly on May 22, 2012 to only maintain an amount necessary to meet its daily cash needs.

Plan's Response:

The Plan agrees with this finding. The Plan states that "there was no financial impact to FEHBP related to the incorrect calculation of the working capital. HMSA is working with the OPM contracting office to further improve our working capital calculation procedures."

Recommendation 6

Since we verified that the Plan correctly recalculated and adjusted the WC deposit on May 22, 2012, no further action is required for the questioned excess WC amount of \$232,004.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

██████████, Lead Auditor

██████████ Auditor

██████████, Auditor

██████████, Chief ██████████

██████████ Senior Team Leader

V. SCHEDULE A

HAWAII MEDICAL SERVICE ASSOCIATION
HONOLULU, HAWAII

HEALTH BENEFIT CHARGES AND AMOUNTS QUESTIONED

HEALTH BENEFIT CHARGES*	2007	2008	2009	2010	2011		TOTAL
HEALTH BENEFIT CHARGES	\$181,360,675	\$199,041,016	\$217,428,430	\$225,958,068	\$232,602,526		\$1,056,390,715
AMOUNTS QUESTIONED	2007	2008	2009	2010	2011	2012	TOTAL
A. HEALTH BENEFIT REFUNDS AND RECOVERIES**							
1. Pharmacy Drug Rebates	\$0	\$0	\$104,435	\$150,928	\$6,364	\$2,464	\$264,191
2. Voucher Deductions	0	0	(8,617)	53,893	3,492	1,374	50,142
3. Health Benefit Refunds	0	(26,201)	0	0	(40,800)		(67,001)
TOTAL HEALTH BENEFIT REFUNDS AND RECOVERIES	\$0	(\$26,201)	\$95,818	\$204,821	(\$30,944)	\$3,838	\$247,332
B. CASH MANAGEMENT							
1. Excess Working Capital	\$0	\$0	\$0	\$0	\$232,004	\$0	\$232,004
TOTAL CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$232,004	\$0	\$232,004
TOTAL AMOUNTS QUESTIONED	\$0	(\$26,201)	\$95,818	\$204,821	\$201,060	\$3,838	\$479,336

* This audit only covered health benefit refunds and recoveries and cash management activities from 2007 through 2011.

** We included lost investment income (LII) within audit findings A1 (\$15,775) and A2 (\$10,420). No additional LII is applicable for these audit findings.

HMSA



Blue Cross
Blue Shield
of Hawaii

Member of the UnitedHealthcare Group

August 24, 2012

██████████ Chief
Experience-Rated Audits Groups
1900 E Street, NW
Washington, D.C. 20415

**Reference: OPM DRAFT CASH MANAGEMENT, HEALTH BENEFITS REFUNDS, AND RECOVERIES
AUDIT REPORT
Hawaii Medical Service Association
Audit Report Number 1D-87-00-12-041**

Dear ██████████

This report is in response to the above-referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) Audit of Hawaii Medical Service Association (HMSA)'s cash management, health benefit refunds, and recoveries from 2007 through 2011. Our comments regarding the findings in this report are as follows.

A. HEALTH BENEFIT REFUNDS AND RECOVERIES

1. Pharmacy Drug Rebates \$248,416

The Plan did not return two pharmacy drug rebates (PDRs), totaling \$248,416, to the FEHBP.

Recommendation 1

We recommend that the contracting officer verify that the Plan credits the FEHBP \$248,416 for the questioned PDRs.

Plan's Response 1

HMSA agrees with the recommendation.

The findings were directly related to a previous accounting process which was put in place to supplement the inadequate reporting capabilities by our previous pharmacy benefit manager (PBM) contracted through 2009. With the transfer in 2010 to a new PBM, HMSA was able to obtain detailed rebate reports specific for FEHBP. This allowed HMSA to eliminate the need for estimation and true-ups and gave us the ability to provide correct rebate credits back to FEHBP on a timely basis. HMSA would like to note that the OPM auditors found no errors for rebates with the new PBM, which is consistent with the implementation of the new reports and internal processes.

HMSA paid the full amount of \$248,416 plus interest on June 29, 2012. HMSA has provided supporting supplementary information as separate attachments.

2. Voucher Deductions \$39,722

In six instances, the Plan made voucher deductions to offset FEHBP refunds and recoveries against non-FEHBP claims, resulting in \$129,863 not being recovered to the FEHBP. In four instances, the Plan made voucher deductions to offset non-FEHBP refunds and recoveries against FEHBP claims, resulting in \$90,141 being incorrectly returned to the FEHBP. As a result, the FEHBP is due \$39,722 (net) for refunds and recoveries not returned via voucher deductions.

Recommendation 2

We recommend that the contracting officer verify that the Plan credits the FEHBP \$39,722 for the questioned voucher deductions.

Plan's Response 2

HMSA agrees with the recommendation.

The findings were related to voucher deductions for recoveries due back to HMSA from our providers. Prior to 2010, any voucher deductions impacting our providers did not specify recoveries by line of business. Beginning in 2010, improved reporting allowed HMSA to apply deductions against future services provided specifically to FEHBP members. In addition, HMSA created a separate bank account for FEHBP so refunds can be tracked and monitored closely. HMSA would like to note that the OPM auditors found no errors for the refund activity in 2011 which is consistent with the implementation of the new reports, bank account, and internal processes.

HMSA paid the full amount of \$39,722 plus interest on June 29, 2012. HMSA has provided supporting supplementary information as separate attachments.

3. Health Benefit Refunds (\$67,001)

The Plan erroneously credited the FEHBP \$67,001 for four health benefit refunds.

Recommendation 3

We recommend that the contracting officer allow the Plan to charge the FEHBP \$67,001 for funds erroneously credited to the FEHBP.

Plan's Response 3

HMSA agrees with the recommendation.

The findings related to insufficient reporting of voided and refund checks for our providers. A new claims system and accounting processes implemented in 2008 and 2012, respectively, closely monitor and identify voided and refund checks by source and line of business. This will ensure accurate withdrawal and deposits into the FEHBP LOCA.

HMSA withdrew the full amount of \$67,001 from the LOCA on June 29, 2012.

B. CASH MANAGEMENT

Excess Working Capital

\$0

The Plan did not correctly calculate the working capital (WC) deposit when making an adjustment on November 14, 2011. As a result, the Plan held a WC deposit with an excess amount of \$232,004 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments and administrative expenses.

Recommendation 4

Since we verified that the Plan correctly calculated and adjusted the working capital balance on May 22, 2012, no further action is required for this questioned amount.

Plan's Response 4

HMSA agrees with the recommendation and agrees that there was no financial impact to FEHBP related to the incorrect calculation of the working capital. HMSA is working with the OPM contracting office to further improve our working capital calculation procedures.

HMSA appreciates the opportunity to provide our response to this Draft Audit Report and request that our comments be included in the Final Audit Report.

Sincerely,



Senior Vice President
Hawaii Medical Service Association

Attachments:

Attachment A: June 29, 2012 LOC draw support

Attachment B: June 29, 2012 transfer support