



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

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# Final Audit Report

**Subject:**

**AUDIT OF  
TRIPLE-S SALUD, INC.  
SAN JUAN, PUERTO RICO**

**Report No. 1D-89-00-12-036**

**Date: March 18, 2013**

**--CAUTION--**

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## AUDIT REPORT

Federal Employees Health Benefits Program  
Experience-Rated Health Maintenance Organization

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Triple-S Salud, Inc.  
Contract CS 1090      Plan Codes 85/89  
San Juan, Puerto Rico

REPORT NO. 1D-89-00-12-036

DATE: 03/18/13



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Assistant Inspector General  
for Audits

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## **EXECUTIVE SUMMARY**

Federal Employees Health Benefits Program  
Experience-Rated Health Maintenance Organization

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Triple-S Salud, Inc.  
Contract CS 1090      Plan Codes 85/89  
San Juan, Puerto Rico

REPORT NO. 1D-89-00-12-036      DATE: 03/18/13

This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at Triple-S Salud, Inc. (Plan), located in San Juan, Puerto Rico, questions \$2,394,593 in health benefit charges, administrative expenses, cash management activities, 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 miscellaneous health benefit payments and credits, such as refunds and pharmacy drug rebates, and administrative expenses from 2007 through 2011 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management activities and practices related to FEHBP funds for contract years 2007 through 2011.

The audit results are summarized as follows:

## **MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

- **Pharmacy Drug Rebates (A)** **\$2,325,196**

Our audit determined that the Plan had not returned pharmacy drug rebates of \$2,004,583 to the FEHBP. Additionally, we determined that the Plan untimely returned pharmacy drug rebates of \$1,075,837 to the FEHBP. As a result of this finding, the Plan returned \$2,325,196 to the FEHBP, consisting of \$2,004,583 for the questioned pharmacy drug rebates and \$320,613 for LII on the drug rebates returned untimely or not previously returned to the FEHBP.

- **Health Benefit Refunds and Recoveries (A)** **\$34,386**

Our audit determined that the Plan had not returned subrogation and other health benefit recoveries, totaling \$30,183, to the FEHBP. Additionally, we determined that the Plan untimely returned subrogation recoveries, totaling \$68,550, to the FEHBP. As a result of this finding, the Plan returned \$34,386 to the FEHBP, consisting of \$30,183 for the questioned recoveries and \$4,203 for LII on the recoveries returned untimely or not previously returned to the FEHBP.

## **ADMINISTRATIVE EXPENSES**

- **Unallowable Interest Expenses (A)** **\$11,916**

The Plan charged the FEHBP \$11,916 for unallowable interest expenses in 2009. As a result of this finding, the Plan returned these questioned charges to the FEHBP.

## **CASH MANAGEMENT**

- **Duplicate Letter of Credit Drawdown (A)** **\$23,095**

The Plan inadvertently withdrew \$20,270 for system access fees from the letter of credit account (LOCA) twice, resulting in a duplicate charge to the FEHBP. As a result of this finding, the Plan returned \$23,095 to the FEHBP, consisting of \$20,270 for the duplicate LOCA drawdown and \$2,825 for LII on these funds.

# CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY .....	i
I. INTRODUCTION AND BACKGROUND .....	1
II. OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
III. AUDIT FINDINGS AND RECOMMENDATIONS .....	6
A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u> .....	6
1. Pharmacy Drug Rebates.....	6
2. Health Benefit Refunds and Recoveries .....	7
B. <u>ADMINISTRATIVE EXPENSES</u> .....	10
1. Unallowable Interest Expenses .....	10
C. <u>CASH MANAGEMENT</u> .....	11
1. Duplicate Letter of Credit Drawdown .....	11
IV. MAJOR CONTRIBUTORS TO THIS REPORT .....	13
V. SCHEDULES	
A. CONTRACT CHARGES	
B. QUESTIONED CHARGES	
APPENDIX (Triple-S Salud, Inc. response, dated December 11, 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 Triple-S Salud, Inc. (Plan). The Plan is located in San Juan, Puerto Rico.

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 a wholly owned subsidiary of the Triple-S Management Corporation. The Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to federal enrollees and their families.<sup>1</sup> Enrollment is open to all federal employees and annuitants in the Plan's service area, which includes Puerto Rico and the Virgin Islands.

The Plan's contract (CS 1090) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that 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.

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

All findings from our previous audit of the Plan (Report No. 1D-89-00-06-043, dated March 26, 2008) for contract years 2000 through 2004 have been satisfactorily resolved.<sup>2</sup>

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 October 12, 2012. The Plan's comments offered in response to the draft report were considered when preparing our final report and are included as an Appendix to this report. Also, additional documentation provided by the Plan on various dates through February 25, 2013 was considered in preparing our final report.

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<sup>2</sup> The previous audit (Report No.1D-89-00-06-043) disclosed several audit findings, including pharmacy drug rebates of \$342,263 that had not been returned to the FEHBP. In an OPM Audit Resolution letter, dated June 23, 2008, we noted that OPM closed the monetary recommendation for these questioned drug rebates because the Plan submitted a certification for the return of these funds to the FEHBP. However, during our review of prior period adjustments, we noted that these previously questioned drug rebates had not been returned to the FEHBP letter of credit account (LOCA). We advised the Plan of this situation and recommended that the Plan adjust a LOCA drawdown to return these previously questioned drug rebates to the FEHBP. As part of our review, we verified that the Plan subsequently returned these funds to the FEHBP through a LOCA drawdown adjustment on July 12, 2012.

## **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 Plan's Annual Accounting Statements for contract years 2007 through 2011. During this period, the Plan paid approximately \$596 million in health benefit charges and \$33 million in administrative expenses (See Figure 1 and Schedule A). Also, the Plan charged the FEHBP \$4.9 million in other expenses and retentions during this period (See Schedule A).<sup>3</sup>

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and pharmacy drug rebates), administrative expenses, and cash management activities for 2007 through 2011.

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<sup>3</sup> We did not review other expenses and retentions for contract years 2007 through 2011, except for the cash management of these funds.



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.

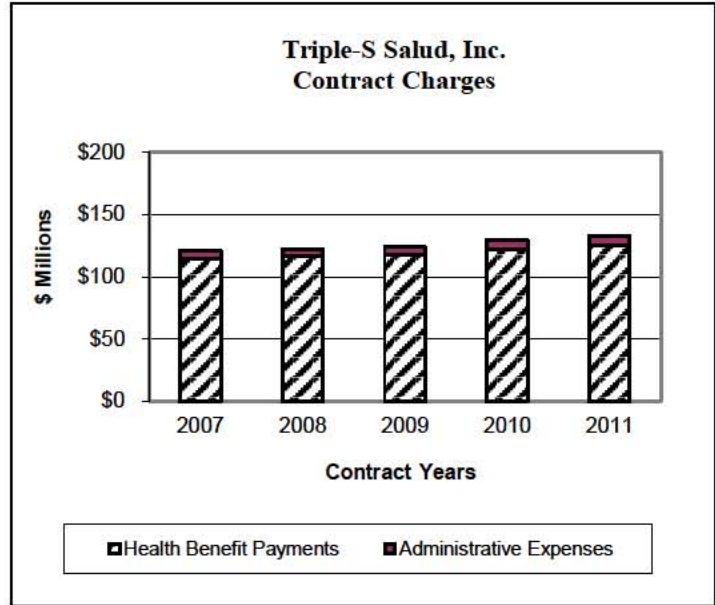


Figure 1 - Contract Charges

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 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 San Juan, Puerto Rico from June 4, 2012 through June 29, 2012. Audit fieldwork was also performed at our office in Jacksonville, Florida. Throughout the audit process, we encountered numerous instances where the Plan responded untimely, or initially provided incomplete responses, to various requests for supporting documentation. As a result, completion of our audit work and issuance of our draft report were delayed.

## **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 13 months with health benefit refunds, totaling \$20,245 (from a universe of 50 months with refunds, totaling \$35,702); all subrogation recoveries, totaling \$80,707; all unidentified refunds, provider audit recoveries, and fraud recoveries, totaling \$260,654; and all pharmacy drug rebate allocations, totaling \$ [REDACTED] to determine if refunds and recoveries were promptly returned to the FEHBP.<sup>4</sup> 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 2007 through 2011. Specifically, we reviewed administrative expenses relating to natural accounts, out-of-system adjustments, prior period adjustments, pension, employee health benefits, executive compensation, subcontracts, gains and losses, benefit plan brochures, and the Health Insurance Portability and Accountability Act of 1996. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

We also reviewed the Plan's cash management activities and practices from 2007 through 2011 to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1090 and applicable laws and regulations.

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<sup>4</sup> The sample of health benefit refunds included all months with total refund receipts of \$950 or more.

### **III. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

##### **1. Pharmacy Drug Rebates** **\$2,325,196**

Our audit determined that the Plan had not returned pharmacy drug rebates of \$2,004,583 to the FEHBP. Additionally, we determined that the Plan untimely returned pharmacy drug rebates of \$1,075,837 to the FEHBP. As a result of this finding, the Plan returned \$2,325,196 to the FEHBP, consisting of \$2,004,583 for the questioned pharmacy drug rebates and \$320,613 for LII on the drug rebates returned untimely or not previously returned to the FEHBP.

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

Contract CS 1090, 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.”

The Plan’s pharmacy drug claims are processed by MC-21 (the Plan’s Pharmacy Benefit Manager). Pharmacy drug rebates are received on a monthly basis from MC-21 and credited to participating groups on a quarterly basis. For the period January 1, 2007 through December 31, 2011, the Plan received pharmacy drug rebates, totaling [REDACTED] for the participating groups. The Plan allocated \$ [REDACTED] of these drug rebates to the FEHBP. We selected and reviewed all of these drug rebates for the purpose of determining if the Plan properly allocated and timely returned these funds to the FEHBP.

The following summarizes the exceptions noted:

- In seven instances, the Plan had not returned pharmacy drug rebate amounts, totaling \$2,004,583, to the FEHBP. As a result of the finding, the Plan returned \$2,297,099 to the LOCA, consisting of \$2,004,583 for these questioned drug rebates and \$292,516 for applicable LII. We reviewed and accepted the Plan’s LII calculation.

- In one instance, the Plan returned a pharmacy drug rebate amount of \$1,075,837 untimely to the FEHBP (i.e., 173 days late). As result of the finding, the Plan calculated LII of \$28,097 on these funds and returned this LII amount to the LOCA. We reviewed and accepted the Plan’s LII calculation.

In total, the Plan returned \$2,325,196 to the FEHBP as a result of this finding, consisting of \$2,004,583 for the questioned pharmacy drug rebates and \$320,613 (\$292,516 plus \$28,097) for applicable LII on the drug rebates returned untimely or not previously returned to the FEHBP.

**Plan’s Response:**

The Plan states, “The Plan reported correctly in its financial statements and in the FEHBP Annual Accounting Statements the above mentioned pharmacy rebates; as a credit to the FEHBP Health Benefit claims expense account and as a reduction of the amount owed by the FEHBP to the Plan. The Plan is owed funds since it operates on a checks presented basis method. Under this method, the Plan pays claims and expenses and requests funds to the FEHBP line of credit based on the checks that cleared (paid by bank). The Plan financial statements include correctly the amounts owed to and from FEHBP.

The Plan inadvertently did not credit timely the FEHBP line of credit account for the rebates. As a result, the Plan was charged for LII of \$320,613.”

**OIG Comments:**

The Plan provided documentation supporting that the questioned pharmacy drug rebates of \$2,004,583 and applicable LII of \$320,613 were returned to the LOCA. In an email (dated February 25, 2013), the Plan agreed with this finding.

**Recommendation 1**

Since we verified that the Plan returned \$2,004,583 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 \$320,613 to the FEHBP for applicable LII on the pharmacy drug rebates that were returned untimely or not previously returned to the FEHBP, no further action is required for this LII amount.

**2. Health Benefit Refunds and Recoveries **\$34,386****

Our audit determined that the Plan had not returned subrogation and other health benefit recoveries, totaling \$30,183, to the FEHBP. Additionally, we determined that the Plan untimely returned subrogation recoveries, totaling \$68,550, to the FEHBP. As a result of

this finding, the Plan returned \$34,386 to the FEHBP, consisting of \$30,183 for the questioned recoveries and \$4,203 for LII on the recoveries returned untimely or not previously returned to the FEHBP.

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

Contract CS 1090, Part III, Section 3.6 states: "Payment of checks issued pursuant to this contract shall be voided if the checks have been outstanding for two (2) years."

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

#### Other Health Benefit Recoveries

For the period 2007 through 2011, there were 60 months with other health benefit recovery receipts, totaling \$260,654, for the FEHBP. These other recoveries included items such as unidentified refunds, provider audit recoveries, and fraud recoveries. We selected and reviewed the entire universe of other health benefit recoveries for the purpose of determining if the Plan timely returned these recoveries to the FEHBP.

We identified six months of other recovery receipts, totaling \$18,026, that had not been returned to the FEHBP. Since these other recoveries had not been returned to the FEHBP, we also calculated LII of \$2,699 on these recoveries. As a result of the finding, the Plan returned \$20,725 to the LOCA, consisting of \$18,026 for the questioned recoveries and \$2,699 for the applicable LII.

#### Subrogation Recoveries

For the period 2007 through 2011, there were six months with subrogation recovery receipts, totaling \$80,707, for the FEHBP. We selected and reviewed the entire universe of subrogation recoveries for the purpose of determining if the Plan timely returned these recoveries to the FEHBP.

We identified five months of subrogation recovery receipts, totaling \$12,157, that had not been returned to the FEHBP. Since these subrogation recoveries had not been returned to the FEHBP, we also calculated LII of \$881 on these recoveries. Additionally, the Plan returned one month of subrogation recovery receipts, totaling \$68,550, to the FEHBP in an untimely manner, resulting in LII of \$623. As result of the finding, the Plan returned \$13,661 to the LOCA, consisting of \$12,157 for the subrogation recoveries not previously returned to the FEHBP and \$1,504 for the applicable LII on the recoveries returned untimely or not previously returned to the FEHBP.

### Health Benefit Refunds

For the period 2007 through 2011, there were 50 months with health benefit refund receipts, totaling \$35,702, for the FEHBP. From this universe, we selected and reviewed a sample of 13 months of refund receipts, totaling \$20,245, for the purpose of determining if the Plan timely returned these funds to the FEHBP. Our sample included all months with total refund receipts of \$950 or more.

We determined that the Plan returned 12 months of refund receipts, totaling \$19,002, to the FEHBP in an untimely manner. We calculated LII on these refunds since the funds were returned untimely to the FEHBP. However, since we determined that the LII amount is immaterial, we did not question this amount.

### Uncashed Health Benefit Checks

During our review of the Plan's cash management activities, we noted instances where the Plan voided uncashed health benefit checks and then returned the funds to the FEHBP through LOCA drawdown adjustments. Since the Plan withdraws funds from the LOCA on a checks-presented basis, the Plan is only required to void these uncashed checks if outstanding for more than two years, but not required to return the funds for these uncashed checks to the FEHBP. During on-site fieldwork, we discussed the Plan's procedures for uncashed checks with the Plan's audit coordinator and Vice President of Finance and Administration, and recommended that the Plan revise them since the Plan is not required to return uncashed checks to the FEHBP under the checks-presented basis.

### Summary of Questioned Amounts

In total, we are questioning \$34,386, representing \$30,183 (\$18,026 plus \$12,157) for subrogation and other recoveries not previously returned to the FEHBP and \$4,203 (\$2,699 plus \$1,504) for LII on recoveries returned untimely or not previously returned to the FEHBP.

### **Plan's Response:**

The Plan states that "all findings that include amounts were credited to the LOCA."

### **OIG Comments:**

The Plan provided documentation supporting that the questioned subrogation and other recoveries of \$30,183 and applicable LII of \$4,203 were returned to the LOCA. In an email (dated February 25, 2013), the Plan agreed with this finding.

### **Recommendation 3**

Since we verified that the Plan returned \$30,183 to the FEHBP for the questioned subrogation and other recoveries, no further action is required for this amount.

#### **Recommendation 4**

Since we verified that the Plan returned \$4,203 to the FEHBP for LII on the subrogation and other recoveries returned untimely or not previously returned to the FEHBP, no further action is required for this LII amount.

### **B. ADMINISTRATIVE EXPENSES**

#### **1. Unallowable Interest Expenses** **\$11,916**

The Plan charged the FEHBP \$11,916 for unallowable interest expenses in 2009. As a result of this finding, the Plan returned these questioned charges to the FEHBP.

48 CFR 31.205-20 states that interest on borrowings (however represented) and directly associated costs are unallowable charges.

For the period 2007 through 2011, the Plan allocated administrative expenses of \$30,417,036 (before adjustments) to the FEHBP from 104 natural accounts. From this universe, we selected a judgmental sample of 23 natural accounts to review, which totaled \$13,084,866 in expenses allocated to the FEHBP. We selected the natural accounts based on high dollar amounts, significant amount fluctuations from year to year, and/or our nomenclature review. From these natural accounts in our sample, we also selected and reviewed a judgmental sample of 22 general ledger expense transactions. We reviewed the expenses from these natural accounts for allowability, allocability, and reasonableness. For natural account “62100” (Legal Services), we identified unallowable interest expenses of \$11,916 that were allocated to the FEHBP in 2009.

#### **Plan’s Response:**

The Plan states that “all findings that include amounts were credited to the LOCA.”

#### **OIG Comments:**

The Plan provided documentation supporting that the questioned charges of \$11,916 were returned to the LOCA. In an email (dated February 25, 2013), the Plan agreed with this finding.

We also calculated LII on these unallowable charges, but determined this LII amount to be immaterial.

#### **Recommendation 5**

Since we verified that the Plan returned \$11,916 to the FEHBP for the unallowable interest expenses, no further action is required for this questioned amount.

## **C. CASH MANAGEMENT**

### **1. Duplicate Letter of Credit Drawdown** **\$23,095**

The Plan inadvertently withdrew \$20,270 for system access fees from the LOCA twice, resulting in a duplicate charge to the FEHBP. As a result of this finding, the Plan returned \$23,095 to the FEHBP, consisting of \$20,270 for the duplicate LOCA drawdown and \$2,825 for LII on these funds.

Contract CS 1090, 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 . . . .”

For the period 2007 through 2011, the Plan made 249 LOCA drawdowns totaling \$625,064,122. From this universe, we selected and reviewed a sample of 60 drawdowns, totaling \$228,806,942, for the purpose of determining if the Plan properly withdrew funds from the LOCA (e.g., on a checks-presented basis) in accordance with Contract CS 1090 and applicable laws and regulations.

During our review, we noted that system access fees are also included in the amounts the Plan withdraws from the LOCA. These access fees are the expenses incurred for processing claims using the Interactive BlueCross System. In one instance, we identified that the Plan inadvertently withdrew a partial amount of the October 2007 access fees, totaling \$20,270, twice from the LOCA. Specifically, the Plan included this partial access fee amount in a November 2007 LOCA drawdown and again in an August 2008 drawdown, resulting in a duplicate charge of \$20,270 to the FEHBP.

In total, we are questioning \$23,095, consisting of \$20,270 for the duplicate LOCA drawdown of system access fees and \$2,825 for LII on these funds.

#### **Plan’s Response:**

The Plan states that “all findings that include amounts were credited to the LOCA.”

#### **OIG Comments:**

The Plan provided documentation supporting that the duplicate LOCA drawdown of \$20,270 for system access fees and applicable LII of \$2,825 were returned to the LOCA. In an email (dated February 25, 2013), the Plan agreed with this finding.



**Recommendation 6**

Since we verified that the Plan returned \$20,270 to the FEHBP for the duplicate LOCA drawdown of system access fees, no further action is required for this questioned amount.

**Recommendation 7**

Since we verified that the Plan returned \$2,825 to the FEHBP for LII on the duplicate LOCA drawdown of system access fees, no further action is required for this LII amount.

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

### Experience-Rated Audits Group

██████████, Lead Auditor

████████████████████, Auditor

██████████, Auditor

██████████, Auditor

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████████████████████, Chief (██████████)

██████████, Senior Team Leader

## V. SCHEDULES

TRIPLE-S SALUD, INC.  
SAN JUAN, PUERTO RICO

## CONTRACT CHARGES

CONTRACT CHARGES*	2007	2008	2009	2010	2011	TOTAL
<b>A. HEALTH BENEFIT CHARGES</b>						
PLAN CODES 85/89	\$116,099,471	\$119,671,998	\$119,543,953	\$123,630,169	\$128,367,238	\$607,312,829
OTHER MISCELLANEOUS ADJUSTMENTS	(1,634,609)	(2,925,224)	(2,226,680)	(1,450,002)	(2,831,752)	(11,068,267)
<b>TOTAL HEALTH BENEFIT CHARGES</b>	<b>\$114,464,862</b>	<b>\$116,746,774</b>	<b>\$117,317,273</b>	<b>\$122,180,167</b>	<b>\$125,535,486</b>	<b>\$596,244,562</b>
<b>B. ADMINISTRATIVE EXPENSES</b>	<b>\$6,388,736</b>	<b>\$5,695,140</b>	<b>\$6,337,328</b>	<b>\$6,965,727</b>	<b>\$7,498,902</b>	<b>\$32,885,833</b>
<b>C. OTHER EXPENSES AND RETENTIONS</b>	<b>\$895,592</b>	<b>\$930,921</b>	<b>\$988,242</b>	<b>\$997,793</b>	<b>\$1,038,296</b>	<b>\$4,850,844</b>
<b>TOTAL CONTRACT CHARGES</b>	<b>\$121,749,190</b>	<b>\$123,372,835</b>	<b>\$124,642,843</b>	<b>\$130,143,687</b>	<b>\$134,072,684</b>	<b>\$633,981,239</b>

\* This audit only covered miscellaneous health benefit payments and credits, administrative expenses, and cash management activities from 2007 through 2011.

SCHEDULE B

TRIPLE-S SALUD, INC.  
SAN JUAN, PUERTO RICO

QUESTIONED CHARGES

AUDIT FINDINGS*	2007	2008	2009	2010	2011	2012	TOTAL
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>							
1. Pharmacy Drug Rebates	\$2,013,927	\$67,596	\$105,340	\$63,946	\$51,418	\$22,969	\$2,325,196
2. Health Benefit Refunds and Recoveries	0	18,566	13,062	1,674	769	315	34,386
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	<b>\$2,013,927</b>	<b>\$86,162</b>	<b>\$118,402</b>	<b>\$65,620</b>	<b>\$52,187</b>	<b>\$23,284</b>	<b>\$2,359,582</b>
<b>B. ADMINISTRATIVE EXPENSES</b>							
1. Unallowable Interest Expenses	\$0	\$0	\$11,916	\$0	\$0	\$0	\$11,916
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$0</b>	<b>\$0</b>	<b>\$11,916</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$11,916</b>
<b>C. CASH MANAGEMENT</b>							
1. Duplicate Letter of Credit Drawdown	\$0	\$20,646	\$1,057	\$643	\$516	\$233	\$23,095
<b>TOTAL CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$20,646</b>	<b>\$1,057</b>	<b>\$643</b>	<b>\$516</b>	<b>\$233</b>	<b>\$23,095</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$2,013,927</b>	<b>\$106,808</b>	<b>\$131,375</b>	<b>\$66,263</b>	<b>\$52,703</b>	<b>\$23,517</b>	<b>\$2,394,593</b>

\* We included lost investment income (LII) within audit findings A1 (\$320,613), A2 (\$4,203), and C1 (\$2,825). No additional LII is due for the audit findings.

December 11, 2012

[REDACTED]  
U.S. Office of Personnel Management/OIG  
701 San Marco Boulevard, Suite #1207  
Jacksonville, FL 32207

**RE: Report No. ID-89-00-12-36**

Dear [REDACTED]

We are including our responses to the Audit Report No. ID-89-00-12-36, in accordance to your request dated October 12, 2012. Additional supporting documents are included for LII of \$327,641 due to FEHBP that was returned by the Plan on December 11, 2012. As can be noted, all amounts required to be credited to the FEHBP have been returned. Therefore all audit recommendations included in the draft report were completed in accordance with your recommendations.

Also, we reviewed the report and are providing our comments and suggestions to changes in the report. All of these comments have been respectfully submitted to obtain your comments before preparing the final report.

A. Comments:

1. The report includes in the Executive Summary the word "questions" and the amount of "\$2,394,593". It also states that, "the plan agreed with this questioned amount". We request the word "questions" be removed from the report. The plan agrees that the amount charged to operations was \$359,827 and not \$2,394,593. Please note that the word "questions" and "questioned" may have many connotations and may be misleading to the user, therefore should not be included in the report.

As TSM (TSS Parent Company) is a public company, the user may understand we did not account for these transactions correctly in our Annual Audited financial statements (AAFS) or SEC filings or in the FEHBP Annual Accounting Statement. The user may understand that a possible prior period restatement of these reports is required, when in fact we accounted for these correctly.

Rebates, recoveries and subrogations for \$2,034,766 (included within the \$2,394,593) were correctly reported as a reduction to claims expense, in both statements, the AAFS and the FEHBP Annual Accounting Statement. This audit brought to our attention, that the payment/ credit had not been made to the LOCA and lost interest (LII) had to be paid. This represents a balance sheet entry and has no impact or charge to our operating results, except for the LII. Therefore it is not correct to "question" the \$2,034,766 when in fact it had no "charges" to operating results.

The remaining amount of \$359,827 is composed of lost interest (LII) of \$327,641, unallowable charges to adm expenses of \$11,916 and a duplicate LOCA drawdown of \$20,270. These amounts resulted in a charge to the 2012 Plan operating results \$359,827.

2. On Page ii and Page 6: (Pharmacy Drug Rebates). We recommend to include the following: "The Plan reported the above pharmacy rebates in the Annual Accounting Statements as a credit to the FEHBP Health Benefit claims expense account and as a reduction of the amount owed by FEHBP to the Plan. Although the amount was recorded in the Annual Accounting Statements, it was returned untimely or not returned to the FEHBP letter of credit account (LOCA). As a result, the FEHBP letter of credit account is due ...".
3. The word "questioned charges" is used in the "Contents" and in the title of Schedule B. Schedule B should not be included as part of the report.
4. The page 2, states the following: "All findings from our previous audit of the Plan (Report No. 1D-89-00-06-043, dated March 26, 2008) for contract years 2000 through 2004 have been satisfactorily resolved. We request the footnote to be excluded, since these were "resolved".
5. The page 3, states the following: "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". It is confusing whether this is a except for opinion or an adverse opinion. We request this phrase to be explained or excluded from the report.

Also, please explain further what are the "items tested" and why we did not comply with "all provisions" of the contract and federal procurement, related to those items tested. What are all the provisions in which we did not comply?

6. The page 3, states the following: "Throughout the audit process, we encountered numerous instances where the Plan responded untimely, or initially provided incomplete responses, to various requests for supporting documentation. As a result, completion of our audit work and issuance of our draft report were delayed".

We request this phrase to be excluded from the report. It blames the Plan for the delays including the timing of the report. We do not agree.

7. The word "questioned" should be removed from the page 7, see comment number 1.
8. The word "questioned" should be removed from the page 9, see comment number 1.

B. Audit Findings Response:

1. **Pharmacy Rebates-** "The Plan reported correctly in its financial statements and in the FEHBP Annual Accounting Statements the above mentioned pharmacy rebates; as a credit to the FEHBP Health Benefit claims expense account and as a reduction of the amount owed by FEHBP to the Plan. The Plan is owed funds since it operates

on a check presented basis method. Under this method, the Plan pays claims and expenses and requests funds to the FEHBP line of credit based on the checks that cleared (paid by bank). The Plan financial statements include correctly the amounts owed to and from FEHBP.

The Plan inadvertently did not credit timely the FEHBP line of credit account for the above rebates. As a result, the Plan was charged for LII of \$320,613”.

2. All other findings. Please note that all findings that include amounts were credited to the LOCA.

We thank you and your audit team for the review of all our comments. We have respectfully included all our comments on the draft report attached, for your consideration and to facilitate you review.

Cordially,

[REDACTED]  
Finance & Administration Division

Enclosure

f Mr. Pablo Almodóvar, President & CEO

[REDACTED]  
Sales and Account Management Division