



---

---

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

---

---

# Final Audit Report

## Audit of Blue Cross and Blue Shield of Alabama

Report Number 1A-10-09-15-043  
June 8, 2016

-- CAUTION --

This audit report has been distributed to Federal officials who are responsible for the administration of the audit 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 (<http://www.opm.gov/our-inspector-general>), caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.

# EXECUTIVE SUMMARY

## *Audit of Blue Cross and Blue Shield of Alabama*

Report No. 1A-10-09-15-043

June 8, 2016

### **Why Did We Conduct the Audit?**

The objectives of our audit were to determine whether Blue Cross and Blue Shield of Alabama (Plan) charged costs to the Federal Employees Health Benefits Program (FEHBP) and provided services to FEHBP members in accordance with the terms of its contract with the U.S. Office of Personnel Management. Specifically, our objective was to determine whether the Plan complied with contract provisions relative to claim payments.

### **What Did We Audit?**

The Office of the Inspector General has completed a limited scope audit of the FEHBP operations of Blue Cross and Blue Shield of Alabama. The audit covered Blue Cross and Blue Shield of Alabama claim payments from January 1, 2012 through February 28, 2015, as reported in the Blue Cross and Blue Shield Association's Federal Employee Program Government-wide Service Benefit Plan Annual Accounting Statements.



---

**Michael R. Esser**  
*Assistant Inspector General  
for Audits*

### **What Did We Find?**

Our audit identified several minor incidents of erroneous claim payments, but we do not believe that the errors are indicative of major systemic control problems. Therefore, we conclude the Plan's processing of FEHBP claims appears to be in compliance with the terms of its contract with the U.S Office of Personnel Management and industry standards. The report questions \$24,332 in health benefit charges. The questioned health benefit charges are summarized as follows:

#### **A. Multiple Procedures Discount Review**

- The Plan incorrectly paid 41 claim lines that were billed when multiple services were performed on the same day, resulting in overcharges of \$18,977 to the FEHBP.

#### **B. Bilateral Procedures Discount Review**

- The Plan incorrectly paid seven claim lines that contained identical services that were performed on both sides of the body during a single operative session, resulting in overcharges of \$2,741 to the FEHBP.

#### **C. Non-Participating Provider Review**

- The Plan incorrectly paid two claims to providers that are not part of the Plan's provider network, resulting in overcharges of \$2,614 to the FEHBP.

# ABBREVIATIONS

Association	Blue Cross Blue Shield Association
BCBS	Blue Cross Blue Shield
DO	Director's Office
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employee Program
FEP OC	Federal Employee Program Operations Center
OBRA 93	Omnibus Budget Reconciliation Act of 1993
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	Blue Cross and Blue Shield of Alabama

# TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY</b> .....	i
<b>ABBREVIATIONS</b> .....	ii
<b>I. BACKGROUND</b> .....	1
<b>II. OBJECTIVES, SCOPE, AND METHODOLOGY</b> .....	3
<b>III. AUDIT FINDINGS AND RECOMMENDATIONS</b> .....	5
A. Multiple Procedures Discount Review.....	5
B. Bilateral Procedures Discount Review .....	6
C. Non-Participating Provider Review .....	7
<b>IV. MAJOR CONTRIBUTORS TO THIS REPORT</b> .....	9
 <b>APPENDIX:</b> Blue Cross Blue Shield Association’s February 26, 2016 response to the Draft Audit Report, issued January 15, 2016.	
 <b>REPORT FRAUD, WASTE, AND MISMANAGEMENT</b>	

# I. BACKGROUND

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Blue Cross and Blue Shield of Alabama (Plan). The Plan is located in Birmingham, Alabama. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

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

The Blue Cross Blue Shield Association (Association), on behalf of participating Blue Cross and Blue Shield (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 64 BCBS plans participating in the FEHBP.

The Association has established a Federal Employee Program (FEP<sup>1</sup>) Director's Office (DO) in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP DO coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

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

---

<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.

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

The most recent audit report issued that covered claim payments for Blue Cross and Blue Shield of Alabama was Report No. 1A-10-09-05-087, dated February 27, 2007. All findings from the previous audit have been resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference; and were presented in detail in a draft audit report, dated January 15, 2016. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

## 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 objective was to determine whether the Plan complied with contract provisions relative to health benefit payments.

### Scope and Methodology

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 Blue Cross and Blue Shield Association's Government-wide Service Benefit Plan FEP Annual Accounting Statements as they pertain to Plan code 010 and 510 (BCBS of Alabama) for contract years 2012 through 2014. During this period, the Plan paid approximately \$1.3 billion in health benefit charges (See Figure 1). From this universe, we judgmentally selected various samples. We reviewed approximately 376 claims, totaling \$1.6 million in payments, for the period January 1, 2012 through February 28, 2015 for proper adjudication. We used the FEHBP contract, the 2012 through 2015 Service Benefit Plan brochures, the Plan's provider agreements, and the Association's FEP Administrative Procedures Manual to determine the allowability of benefit payments. The results of these samples were not projected to the universe of claims.

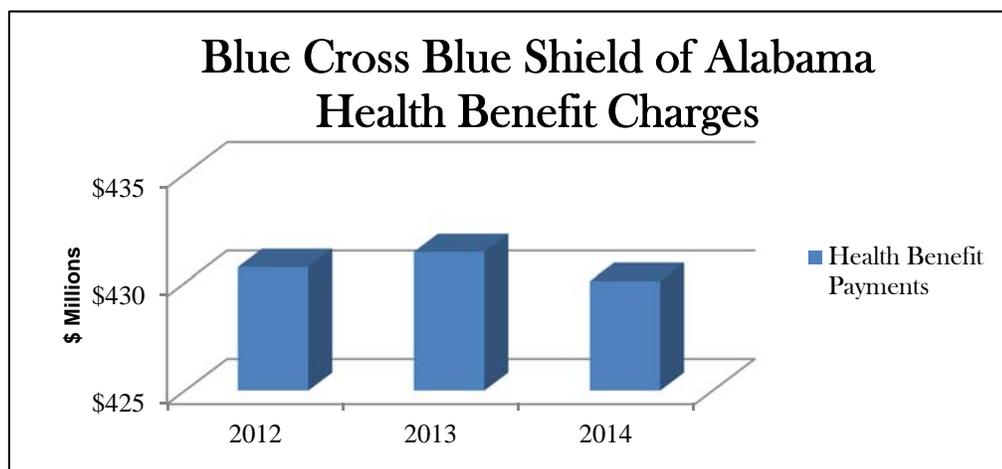


Figure 1 – Health Benefit Charges

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. 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 and the laws and regulations governing the FEHBP as they relate to claim payments. The results of our tests indicate that, with respect to the items tested, the Plan did not fully comply with the provisions of the contract relative to claim payments. Exceptions noted are explained in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP DO, the FEP OC, and the Plan. Through audits and a reconciliation process, we have verified the reliability of the BCBS claims data in our data warehouse, which was used to identify the universe of claims for each type of review. The BCBS claims data is provided to us on a monthly basis by the FEP OC, and after a series of internal steps, uploaded into our data warehouse. However, due to time constraints, we did not verify the reliability of the data generated by the Plan's local claims system. While utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

Audit fieldwork was performed at our offices in Washington, D.C.; Cranberry Township, Pennsylvania; and Jacksonville, Florida through December 2015.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

The sections below summarize the results of several reviews we performed on claim payments made by BCBS Alabama. As mentioned in the “scope” section above, all of our samples were selected from claim payments for services provided between January 1, 2012 and February 28, 2015.

## A. Multiple Procedures Discount Review \$18,977

We reviewed a sample of claims that contained multiple procedures. In general, the Plan discounts the provider’s reimbursement when multiple services are performed on the same patient on the same day. See Exhibit I for a summary of our multiple procedures discount review.

**Exhibit I – Summary of Multiple Procedures Discount Review**

Universe of Claim Lines	Universe Dollar Total	Sampled Claim Lines	Sampled Dollar Total	Claim Lines Paid in Error	Total Claim Payment Errors
████	████████	██	██████	41	\$18,977

### *Sample Selection Criteria*

Our review included:

- All claim lines with amounts paid of \$2,500 or more;
- A random selection of 50 claim lines with amounts paid between \$500 and \$2,500; and
- All claim lines subject to Omnibus Budget Reconciliation Act of 1993 (OBRA 93) pricing guidelines with amounts paid of \$150 or more<sup>2</sup>.

### *Cause of Errors*

- For six claim lines, the Plan’s claims processors applied the incorrect allowance for an out-of-network provider, resulting in overcharges of \$10,368.
- The FEP OC did not apply the Medicare multiple procedure discount to 33 OBRA 93 claim lines, resulting in overcharges of \$6,862; and
- The Plan’s claims processors did not apply the Plan’s local multiple procedure discount to two claim lines, resulting in overcharges of \$1,747.

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,

<sup>2</sup> The OBRA 93 regulation limits the benefit payment for certain services to annuitants age 65 or older who are not covered under Medicare Part B and the FEHBP is required to limit the claim payment to the lesser of the Medicare Part B payment or billed charges.

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 . . . regardless of any time period limitations in the written agreement with the provider.”

**Plan Response:**

*“The Plan adjusted each claim in order to initiate recovery. Any funds recovered will be returned to the FEP Program.”*

**OIG Comment:**

As part of the audit resolution process, we recommend that the Plan submit evidence that these overpayments have been properly adjusted and returned to the FEHBP. This statement applies to all subsequent recommendations in this report where the Plan agrees to implement our recommendation.

**Recommendation 1**

We recommend that the contracting officer disallow \$18,977 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

**B. Bilateral Procedures Discount Review \$2,741**

We reviewed a sample of claims that contained a bilateral procedure. In general, the Plan discounts the provider’s reimbursement when identical services are performed on both sides of the body during a single operative session. See Exhibit II for a summary of our bilateral procedures discount review.

**Exhibit II– Summary of Bilateral Procedures Discount Review**

Universe of Claim Lines	Universe Dollar Total	Sampled Claim Lines	Sampled Dollar Total	Claim Lines Paid in Error	Total Claim Payment Errors
█	█	█	█	7	\$2,741

*Sample Selection Criteria*

Our review included:

- All claim lines subject to OBRA 93 pricing guidelines with amounts paid of \$200 or more; and
- A random selection of 50 claim lines with amounts paid of \$500 or more.

*Cause of Errors*

- The FEP OC did not apply the Medicare bilateral procedure discount to six OBRA 93 claim lines, resulting in overcharges of \$2,637; and
- In one instance, the Plan’s claims processors overrode the system’s automated pricing, resulting in an overcharge of \$104.

As previously cited from CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. If errors are identified, the Plan is required to make a diligent effort to recover the overpayments. Also, the recovery of any overpayment must be treated as an erroneous benefit payment, regardless of any time period limitations in the written provider agreement.

**Plan Response:**

***“The Plan adjusted each claim in order to initiate recovery. Any funds recovered will be returned to the FEP Program.”***

**Recommendation 2**

We recommend that the contracting officer disallow \$2,741 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

**C. Non-Participating Provider Review \$2,614**

We reviewed a sample of claims paid to providers that are not part of the Plan’s provider network (i.e., non-participating or non-par providers) to ensure that these claims were correctly priced and paid according to the FEP Service Benefit Plan brochures. See Exhibit III for a summary of our non-participating providers review.

**Exhibit III – Summary of Non-Participating Providers Review**

Universe of Claims	Universe Dollar Total	Sampled Claims	Sampled Dollar Total	Total Claims Paid in Error	Total Claim Payment Errors
██████	██████████	█	██████	2	\$2,614

*Sample Selection Criteria*

Our review included:

- A random selection of 15 professional claims and 10 outpatient claims paid to non-par providers;

- A judgmental selection of 5 high dollar dental claims where the patient had basic option enrollment coverage; and
- A judgmental selection of 3 high dollar claims containing unlisted procedure codes.

*Cause of Errors*

The overpayments found in this review were due to a provider inadvertently billing two claims with overlapping dates of service.

As previously cited from CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. If errors are identified, the Plan is required to make a diligent effort to recover the overpayments. Also, the recovery of any overpayment must be treated as an erroneous benefit payment, regardless of any time period limitations in the written provider agreement.

The 2015 BCBS Service Benefit Brochure provides general guidance on the FEP's policy for pricing and paying non-participating provider claims.

**Plan Response:**

*“The Plan adjusted each claim in order to initiate recovery. Any funds recovered will be returned to the FEP Program.”*

**Recommendation 3**

We recommend that the contracting officer disallow \$2,614 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

# IV. MAJOR CONTRIBUTORS TO THIS REPORT

## Information Systems Audits Group

██████████, Auditor-in-Charge

████████████████████, Auditor

██████████, Auditor

---

██████████, Senior Team Leader

██████████, Group Chief



**BlueCross BlueShield  
Association**

An Association of Independent  
Blue Cross and Blue Shield Plans

Federal Employee Program  
1310 G Street, N.W.  
Washington, D.C. 20005  
Phone # 202.942.1000  
Fax 202.942.1125

## APPENDIX

February 26, 2016

██████████, Group Chief  
Claims & IT Audits Group  
U.S. Office of Personnel Management  
1900 E Street, Room 6400  
Washington, D.C. 20415-1100

**Reference: OPM DRAFT AUDIT REPORT  
Blue Cross and Blue Shield of Alabama  
Audit Report Number 1A-10-09-15-043  
(Dated and Received January 15, 2016)**

Dear ██████████:

This is our response to the above referenced U.S. Office of Personnel Management (OPM) Final Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) for Blue Cross and Blue Shield of Alabama (Plan). Our comments concerning the findings in this report are as follows:

### HEALTH BENEFIT CHARGES

**A. DELETED BY THE OIG. THIS FINDING AND RECOMMENDATION WAS REMOVED FROM THE FINAL REPORT.**

**B. Multiple Procedure Review**

**\$18,977**

#### **Recommendation 3**

We recommend that the contracting officer disallow \$18,977 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

**Plan Response:**

The Plan adjusted each claim in order to initiate recovery. Any funds recovered will be returned to the FEP Program.

**C. Bilateral Procedures Review**

**\$2,741**

**Recommendation 4**

We recommend that the contracting officer disallow \$2,741 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

**Plan Response**

The Plan adjusted each claim in order to initiate recovery. Any funds recovered will be returned to the FEP Program.

**D. Non-Participating Providers Review**

**\$2,614**

**Recommendation 5**

We recommend that the contracting officer disallow \$2,614 for claim overcharges and verify that the Plan returns all amounts recovered to the FEHBP.

**Plan Response:**

The Plan adjusted each claim in order to initiate recovery. Any funds recovered will be returned to the FEP Program.

We appreciate the opportunity to provide our response to each of the findings in this report and request that our comments be included in their entirety and are made a part of the Final Audit Report. If you have any questions, please contact me at [REDACTED] or [REDACTED] at [REDACTED].

Sincerely,

[REDACTED], CISA  
Managing Director, Program Assurance

cc: [REDACTED], BCBSAL  
[REDACTED], FEP  
[REDACTED], FEP



## **Report Fraud, Waste, and Mismanagement**

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

**By Internet:** <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

**By Phone:** Toll Free Number: (877) 499-7295  
Washington Metro Area: (202) 606-2423

**By Mail:** Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, NW  
Room 6400  
Washington, DC 20415-1100

-- CAUTION --

This audit report has been distributed to Federal officials who are responsible for the administration of the audited program. This audit report may contain proprietary data 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 (<http://www.opm.gov/our-inspector-general>), caution needs to be exercised before releasing the report to the general public as it may contain proprietary information that was redacted from the publicly distributed copy.