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

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# Final Audit Report

**AUDIT OF  
BLUECROSS BLUESHIELD OF MASSACHUSETTS  
BOSTON, MASSACHUSETTS**

**Report Number 1A-10-11-16-027**

**March 27, 2017**

**-- CAUTION --**

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# EXECUTIVE SUMMARY

## *Audit of BlueCross BlueShield of Massachusetts*

Report No. 1A-10-11-16-027

March 27, 2017

### **Why did we conduct the audit?**

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Massachusetts (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. Specifically, the objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract.

### **What did we audit?**

Our audit covered miscellaneous health benefit payments and credits and administrative expenses from 2011 through 2015 as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2011 through 2015, as well as the Plan's Fraud and Abuse (F&A) Program activities from January 1, 2015, through March 31, 2016.



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

### **What did we find?**

We questioned \$111,434 in administrative expense overcharges and lost investment income (LII). We also identified a procedural finding regarding the Plan's F&A Program. The BlueCross BlueShield Association (Association) and Plan agreed with all of the questioned amounts and partially agreed with the procedural finding regarding the F&A Program.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that the Plan timely returned health benefit refunds and recoveries to the FEHBP and properly charged miscellaneous payments to the FEHBP.
- Administrative Expenses – We questioned \$111,434 in administrative expenses and LII, consisting of \$88,323 for idle facility cost overcharges, \$14,794 for unallowable and/or unallocable natural account expenses, \$2,445 for a share of an administrative expense reimbursement credit, \$1,262 for post-retirement benefit cost overcharges, and \$4,610 for LII on the questioned overcharges. We verified that the Plan has returned these questioned amounts to the FEHBP.
- Cash Management – The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.
- Fraud and Abuse Program – The Association and Plan are *not* in total compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2014-29.

# ABBREVIATIONS

<b>Association</b>	<b>BlueCross BlueShield Association</b>
<b>BCBS</b>	<b>BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield</b>
<b>CL</b>	<b>Carrier Letter</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>Contract</b>	<b>Contract CS 1039</b>
<b>FAR</b>	<b>Federal Acquisition Regulations</b>
<b>FEP</b>	<b>Federal Employee Program</b>
<b>FEPDO</b>	<b>Federal Employee Program Director's Office</b>
<b>FEHB</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>F&amp;A</b>	<b>Fraud and Abuse</b>
<b>FIMS</b>	<b>Fraud Information Management System</b>
<b>HPCM</b>	<b>Hyperion Profitability Cost Management</b>
<b>LOCA</b>	<b>Letter of Credit Account</b>
<b>LII</b>	<b>Lost Investment Income</b>
<b>NASCO</b>	<b>National Account Service Company</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>Office of Personnel Management</b>
<b>Plan</b>	<b>BlueCross BlueShield of Massachusetts</b>
<b>SIU</b>	<b>Special Investigations Unit</b>
<b>SPI</b>	<b>Special Plan Invoice</b>
<b>TPS</b>	<b>Total Processing System</b>

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## **REPORT FRAUD, WASTE, AND MISMANAGEMENT**

# 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 BlueCross BlueShield of Massachusetts (Plan). The Plan is located in Boston, Massachusetts.

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

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

The BlueCross BlueShield Association (Association), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (contract or 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. The Plan is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

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

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BCBS, located in Owings Mills, Maryland and Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf of BCBS plans, approving or disapproving the

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

reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of all FEHBP claims, and maintaining claims payment data and related financial data in support of the Association's accounting of all program funds.

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Association and Plan management. Also, working in partnership with the Association, 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. 1A-10-11-11-058, dated June 14, 2012), for contract years 2006 through 2010 have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on November 15, 2016; and were presented in detail in a draft report, dated December 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 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 timely 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.

#### Fraud and Abuse Program

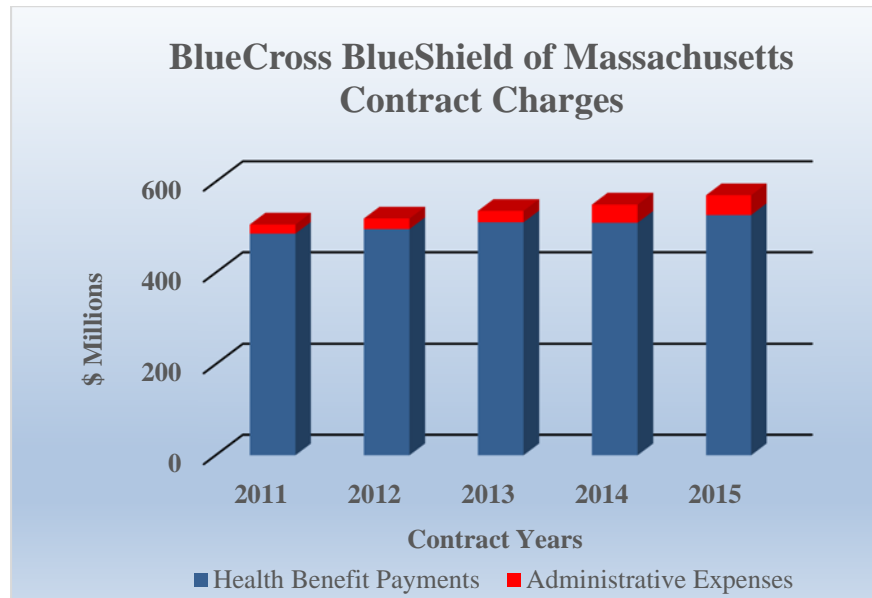
- To determine whether the Plan's communication and reporting of fraud and abuse cases were in compliance with the terms of Contract CS 1039 (contract) and FEHBP Carrier Letter 2014-29.



## SCOPE

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 200 and 700 for contract years 2011 through 2015. During this period, the Plan paid approximately \$2.5 billion in FEHBP health benefit payments and charged the FEHBP \$152.5 million in administrative expenses.



Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, provider settlements, fraud recoveries, and special plan invoices), cash management activities, and administrative expenses from 2011 through 2015. We also reviewed the Plan's Fraud and Abuse (F&A) Program activities from January 1, 2015, through March 31, 2016.

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 FEP Director's Office and the Plan. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

The audit was performed at the Plan's office in Boston, Massachusetts on various dates from July 25, 2016, through September 30, 2016. Audit fieldwork was also performed at our offices in Jacksonville, Florida and Washington, D.C. through November 15, 2016. Throughout the audit process, the Plan did an excellent job providing complete and timely responses to our numerous requests for supporting documentation. We greatly appreciated the Plan's exceptional cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

## **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. From 2011 through 2015, the Plan processed health benefit payments and recoveries using the Total Processing System (TPS). In May 2014, the Plan started transitioning the health benefit payment and recovery processing functions to the National Account Service Company (NASCO) System. For the audit scope, we judgmentally and/or statistically selected and reviewed the following FEP items from both systems:

### Health Benefit Refunds – TPS

- A high dollar sample of 44 FEP health benefit refunds returned via auto recoupments, totaling \$5,746,836 (from a universe of [REDACTED] FEP health benefit refunds returned via auto recoupments, totaling \$ [REDACTED]). Our high dollar sample included all auto recoupments of \$ [REDACTED] or more.
- A high dollar sample of 65 FEP health benefit refund cash receipts, totaling \$3,887,506, and a statistical sample of 76 FEP health benefit refund receipts, totaling \$527,486 (from a universe of [REDACTED] FEP refund receipt amounts, totaling \$ [REDACTED]). Our high dollar sample included all refund receipt amounts of \$30,000 or more and our statistical sample included refunds selected from a stratification of receipt amounts from \$250 through \$30,000.

### Health Benefit Refunds – NASCO System

- A high dollar sample of 31 FEP health benefit refunds returned via auto recoupments, totaling \$2,701,735 (from a universe of [REDACTED] FEP health benefit refunds returned via auto recoupments, totaling \$ [REDACTED]). Our high dollar sample included all auto recoupments of \$ [REDACTED] or more.
- A high dollar sample of 22 FEP health benefit refund cash receipts, totaling \$1,085,012, and a statistical sample of 72 FEP health benefit refund receipts, totaling \$650,276 (from a universe of [REDACTED] FEP refund receipt amounts, totaling \$ [REDACTED]). Our high dollar sample included all refund receipt amounts of \$15,000 or more and our statistical sample included refunds selected from a stratification of receipt amounts greater than \$250 but less than \$15,000.

### Other Health Benefit Payments, Credits, and Recoveries

- 20 high dollar special plan invoices (SPI), totaling \$10,578,773 in net FEP payments, from a universe of [REDACTED] SPI's, totaling \$ [REDACTED] in net FEP payments. Based on our nomenclature review, we selected 15 SPI's with high dollar charge amounts and 5 SPI's with high dollar credit amounts for SPI pay codes related to miscellaneous health benefit payments and credits.
- 8 hospital settlements, totaling \$1,736,718 in net credits, from a universe of [REDACTED] hospital settlements, totaling \$ [REDACTED] in net credits. For this sample, we selected two hospital settlement amounts that were charged to the FEHBP and six hospital settlement amounts

that were credited to the FEHBP. We selected both charge and credit amounts that were greater than \$100,000.

- 8 fraud settlement recoveries, totaling \$541,687, from a universe of [REDACTED] fraud settlement recoveries, totaling \$ [REDACTED]. Our sample included all fraud settlement recovery amounts that were greater than \$ [REDACTED].

We reviewed these samples to determine if health benefit refunds and recoveries were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits, since there were no exceptions.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2011 through 2015. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, pension, post-retirement, non-recurring projects, out-of-system adjustments, and prior period adjustments.<sup>2</sup> We also reviewed administrative expenses relating to the Patient Protection and Affordable Care Act that were allocated and charged to the FEHBP (i.e., health insurance provider, transitional reinsurance, and “Patient-Centered Outcomes Research Institute” fees). We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of the charges.

We reviewed the Plan’s cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, and interest income transactions from 2011 through 2015, as well as the Plan’s dedicated FEP investment account activity during the scope and balance as of December 31, 2015.

We also interviewed the Plan’s Special Investigations Unit regarding the effectiveness of the F&A Program, as well as reviewed the Plan’s communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and FEHBP Carrier Letter 2014-29.

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<sup>2</sup> The Plan allocated administrative expenses of \$ [REDACTED] to the FEHBP from [REDACTED] cost centers and [REDACTED] natural accounts. From this universe, we selected and reviewed a judgmental sample of 45 cost centers, which totaled \$60,727,967 in expenses allocated to the FEHBP. We also selected and reviewed a judgmental sample of 28 natural accounts, which totaled \$24,159,087 in expenses allocated to the FEHBP. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits. Overall, we concluded that the Plan timely returned health benefit refunds and recoveries to the FEHBP and properly charged miscellaneous payments to the FEHBP.

## B. ADMINISTRATIVE EXPENSES

### 1. Idle Facility Costs \$91,809

During our pre-audit phase, the Plan self-disclosed overcharges of \$88,323 to the FEHBP for idle facility costs that were incurred from 2012 through 2015. As a result, the Plan returned \$91,809 to the FEHBP for this audit finding, consisting of \$88,323 for idle facility cost overcharges and \$3,486 for applicable lost investment income (LII).

Contract CS 1039, Part III, Section 3.2 (b)(1) states, “The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable.”

48 CFR 31.205-17(b) states, “The costs of idle facilities are unallowable unless the facilities -

1. Are necessary to meet fluctuations in workload; or
2. Were necessary when acquired and are now idle because of changes in requirements, production economies, reorganization, termination, or other causes which could not have been reasonably foreseen. (Costs of idle facilities are allowable for a reasonable period, ordinarily not to exceed 1 year, depending upon the initiative taken to use, lease, or dispose of the idle facilities . . . .”

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 41 U.S.C. 7109, 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.”

Regarding reportable monetary findings, Contract CS 1039, Part III, Section 3.16 (a), states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were

already identified and corrected (i.e., administrative expense overcharges . . . were already . . . returned to the FEHBP) prior to audit notification.”

**The Plan overcharged the FEHBP \$88,323 for idle facility costs during the audit scope.**

While preparing for our audit, the Plan determined that the occupancy costs that were allocated and charged to the FEHBP for 2012 through 2015 included adjustments that were calculated using incorrect vacancy rates. The Plan performed an analysis of vacant space for three of the company’s facilities in Massachusetts. The Plan recalculated the FEP’s vacant space adjustments using industry standard rates (as determined by Colliers International). We reviewed and accepted the Plan’s analysis and recalculations of the vacant space adjustments for FEP.

The following summarizes the exceptions noted:

- In 2012, the Plan allocated and charged occupancy costs to the FEHBP for the company’s Landmark building, which also included an adjustment for a 13 percent vacancy rate. During our pre-audit phase, the Plan recalculated this adjustment using an industry standard vacancy rate of 7 percent, resulting in an occupancy cost overcharge of \$19,133 to the FEHBP. As a result, we are questioning \$20,578 for this exception, consisting of \$19,133 for the idle facility cost overcharge and \$1,445 for applicable LII.
- In 2013, the Plan allocated and charged occupancy costs to the FEHBP for the company’s Landmark building, which also included an adjustment for a 10 percent vacancy rate. During our pre-audit phase, the Plan recalculated this adjustment using an industry standard vacancy rate of 6 percent, resulting in an occupancy cost overcharge of \$10,116 to the FEHBP. As a result, we are questioning \$10,723 for this exception, consisting of \$10,116 for an idle facility cost overcharge and \$607 for applicable LII.
- In 2014, the Plan allocated and charged occupancy costs to the FEHBP for the Landmark and One Enterprise buildings. These occupancy costs also included adjustments for 11 percent and 18 percent vacancy rates by the Landmark and One Enterprise buildings, respectively. During our pre-audit phase, the Plan recalculated these adjustments using industry standard vacancy rates of 6 percent for the Landmark building and 16 percent for the One Enterprise building, resulting in occupancy cost overcharges of \$19,016 to the FEHBP for these buildings. As a

result, we are questioning \$19,766 for these exceptions, consisting of \$19,016 for idle facility cost overcharges and \$750 for applicable LII.

- In 2015, the Plan allocated occupancy costs to the FEHBP for the Huntington, One Enterprise, and Hingham buildings. These occupancy costs also included adjustments for 21 percent, 20 percent, and 21 percent vacancy rates by the Huntington, One Enterprise, and Hingham buildings, respectively. During our pre-audit phase, the Plan recalculated these adjustments using industry standard vacancy rates of 15 percent for the Huntington building, 12 percent for the One Enterprise building, and 12 percent for the Hingham building. The Plan's recalculated adjustments resulted in occupancy cost overcharges of \$40,058 to the FEHBP for these buildings. As a result, we are questioning \$40,742 for these exceptions, consisting of \$40,058 for idle facility cost overcharges and \$684 for applicable LII.

In total, we are questioning \$91,809 for this audit finding, consisting of \$88,323 (\$19,133 plus \$10,116 plus \$19,016 plus \$40,058) for idle facility cost overcharges and \$3,486 (\$1,445 plus \$607 plus \$750 plus \$684) for LII calculated through September 30, 2016.

**Association Response:**

*The Association and Plan agree with this finding.*

**OIG Comment:**

As part of our review, we verified that the Plan returned \$91,809 to the FEHBP in September and October 2016 for this audit finding, consisting of \$88,323 for the questioned idle facility costs and \$3,486 for applicable LII.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$88,323 to the FEHBP for the questioned idle facility costs. However, since we verified that the Plan returned \$88,323 to the FEHBP for these questioned idle facility costs, no further action is required for this amount.

## **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$3,486 to the FEHBP for LII on the questioned idle facility costs. However, since we verified that the Plan returned \$3,486 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### **2. Unallowable and/or Unallocable Natural Accounts \$15,918**

During our pre-audit phase, the Plan self-disclosed that unallowable and/or unallocable natural account expenses of \$14,794 were charged to the FEHBP in 2012. As a result, the Plan returned \$15,918 to the FEHBP for this audit finding, consisting of \$14,794 for these unallowable and/or unallocable natural account expenses and \$1,124 for applicable LII.

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

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

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

As previously cited from FAR 52.232-17(a), all amounts that become payable by the Carrier should include simple interest from the date due.

Regarding reportable monetary findings, Contract CS 1039, Part III, Section 3.16 (a), states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., administrative expense overcharges . . . were already . . . returned to the FEHBP) prior to audit notification."



For the period 2011 through 2015, the Plan allocated administrative expenses of \$117,149,816 (before adjustments) to the FEHBP from 235 natural accounts. From this universe, we selected a judgmental sample of 28 natural accounts to review, which totaled \$24,159,087 in expenses allocated to the FEHBP. We selected these natural accounts based on high dollar amounts, a nomenclature review, and our trend analysis. We reviewed the expenses from these natural accounts for allowability, allocability, and reasonableness.

While preparing for the audit, the Plan identified several natural account expense amounts, totaling \$14,794, from the company’s global account exclusion listing that were incorrectly allocated and charged to the FEP in November 2012. The Plan stated, “When the final November 2012 administrative cost allocation run was executed, the global exclusion list file that was loaded to the [REDACTED] allocation system was not properly updated to reflect the correct code and period for the November 2012 administrative expense processing. The file should have included the code ‘Actual’ and the period ‘NOV-12’. Instead the global account exclusion file contained the code ‘Budget’ and the period ‘JAN-13’ (used for the financial plan processing). This error caused the [REDACTED] system to not appropriately apply the global account exclusion logic.”

The following schedule is a summary of these questioned natural account expenses that were inappropriately charged to the FEHBP in 2012.

Natural Account Number	Natural Account Name	Amount Questioned
63450	Cafe Expenses	\$ [REDACTED]
61643	Retiree – FASB 106	[REDACTED]
66103	Promotional Literature, Other	[REDACTED]
65015	Legal Consulting	[REDACTED]
63436	Municipal Taxes	[REDACTED]
61221	Massachusetts State Unemployment Insurance	[REDACTED]
66080	Public/Account Relations	[REDACTED]
65645	NASCO Transaction Charges	[REDACTED]
61930	Bank Fees - Other Banks	[REDACTED]
63099	Government - Non-Allowable Travel	[REDACTED]
61800	RIT/Savings Plan	[REDACTED]
<b>Total</b>		<b>\$14,794</b>

For our sample of natural accounts, we did not identify additional unallowable and/or unallocable charges. In total, we are questioning \$15,918 for this audit finding, consisting of \$14,794 for unallowable and/or unallocable natural account charges that were self-disclosed by the Plan and \$1,124 for applicable LII (calculated through September 30, 2016).

**Association Response:**

*The Association and Plan agree with this finding.*

**OIG Comment:**

As part of our review, we verified that the Plan returned \$15,918 to the FEHBP in September and October 2016 for this audit finding, consisting of \$14,794 for the questioned natural account expenses and \$1,124 for applicable LII.

**Recommendation 3**

We recommend that the contracting officer require the Plan to return \$14,794 to the FEHBP for the questioned natural account expenses. However, since we verified that the Plan returned \$14,794 to the FEHBP for these questioned expenses, no further action is required for this amount.

**Recommendation 4**

We recommend that the contracting officer require the Plan to return \$1,124 to the FEHBP for LII on the questioned natural account expenses. However, since we verified that the Plan returned \$1,124 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**3. Administrative Expense Reimbursement Credit \$2,445**

Our audit determined that the Plan had not credited the FEHBP a share of an administrative expense reimbursement applicable to support activities provided by the Plan to NASCO. As a result of this audit finding, the Plan returned \$2,445 to the FEHBP for FEP's allocable share of this administrative expense reimbursement credit.

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.”

For 2015, the Plan allocated administrative expenses of \$ [REDACTED] to the FEHBP using [REDACTED] direct and non-direct allocation methods. From this universe, we selected a judgmental sample of five non-direct allocation methods to review, which totaled \$3,152,366 of the expenses allocated to the FEHBP. We selected these non-direct allocation methods based on high dollar amounts. We reviewed these allocation methods for reasonableness and verified that the methods were adequately supported.

**The Plan had not credited the FEHBP \$2,445 for a share of an administrative expense credit in 2015.**

During our review, we identified that the Plan had not credited the FEHBP an allocable share of an administrative expense credit in 2015. The Plan stated that an expense credit of \$ [REDACTED] was received from NASCO in 2015 for support activities a Plan employee provided to NASCO.<sup>3</sup> As part of the agreement for a Plan employee to perform NASCO support activities, NASCO provided a monthly credit to reimburse the Plan for these services. The natural account used to capture this expense credit in the “Claims Operations Management” cost center is included in the company’s global account exclusion that does not allocate expenses to the FEP. Therefore, there was no allocation to the FEP for the reimbursement of this monthly credit. The Plan stated that the expenses for the employee performing these services were captured in the “External Partnerships” cost center that had an FEP allocation of [REDACTED] percent in 2015. This NASCO expense credit should also have been recorded in the “External Partnerships” cost center but was not.

As a result of our discovery, the Plan calculated FEP’s allocable share of this NACSO administrative expense credit to be \$2,445 ([REDACTED] percent of \$ [REDACTED]). We reviewed and accepted the Plan’s calculation. Since the calculated LII on this questioned amount is immaterial, we did not include LII for this audit finding.

**Association Response:**

***The Association and Plan agree with this finding.***

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<sup>3</sup> NASCO provides claims processing solutions to BCBS plans.

**OIG Comment:**

As part of our review, we verified that the Plan returned \$2,445 to the FEHBP on November 1, 2016, for this audit finding.

**Recommendation 5**

We recommend that the contracting officer require the Plan to return \$2,445 to the FEHBP for the questioned administrative expense reimbursement credit. However, since we verified that the Plan returned \$2,445 to the FEHBP for this questioned reimbursement credit, no further action is required for this amount.

**4. Post-Retirement Benefit Costs \$1,262**

During our pre-audit phase, the Plan self-disclosed overcharges of \$1,262 (net) to the FEHBP for post-retirement benefit (PRB) costs that were incurred from 2013 through 2015. As a result, the Plan returned \$1,262 (net) to the FEHBP for these questioned PRB overcharges.

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

48 CFR 31.205-6(o) states, “(1) PRB covers all benefits, other than cash benefits and life insurance benefits paid by pension plans, provided to employees, their beneficiaries, and covered dependents during the period following the employees' retirement. Benefits encompassed include, but are not limited to, postretirement health care; life insurance provided outside a pension plan; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. (2) To be allowable, PRB costs shall be incurred pursuant to law, employer-employee agreement, or an established policy of the contractor, and shall comply with paragraphs (o)(2)(i), (ii), or (iii) of this subsection.”

Regarding reportable monetary findings, Contract CS 1039, Part III, Section 3.16 (a), states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., administrative expense overcharges . . . were already . . . returned to the FEHBP) prior to audit notification.”

The Plan used the cash (or pay-as-you-go) method to charge the FEHBP for PRB costs from 2011 through 2015. A few of the PRB's offered by the Plan included retiree medical health plans, retiree dental health plans, and retiree group life insurance.

**The Plan overcharged the FEHBP \$1,262 (net) for PRB costs.**

While preparing for our audit, the Plan determined that the FEHBP was overcharged \$1,262 (net) for PRB costs in 2013, 2014, and 2015. Specifically, the Plan calculated that the FEHBP was undercharged by \$6,452 in 2013, overcharged by \$6,175 in 2014, and overcharged by \$1,539 in 2015. We reviewed and accepted the Plan's calculations of these PRB over- and undercharges to the FEHBP. We also reviewed the Plan's calculations of the PRB costs charged to the FEHBP in 2011 and 2012 and determined that these costs were calculated in accordance with 48 CFR 31.205-6(o).

Since LII is immaterial on the PRB overcharges, we did not question LII for this audit finding.

**Association Response:**

*The Association and Plan agree with this finding.*

**OIG Comment:**

As part of our review, we verified that the Plan returned \$1,262 (\$6,175 plus \$1,539 minus \$6,452) to the FEHBP in September 2016 for the questioned PRB net overcharges.

**Recommendation 6**

We recommend that the contracting officer require the Plan to return \$7,714 (\$6,175 plus \$1,539) to the FEHBP for the questioned PRB overcharges in 2014 and 2015. However, since we verified that the Plan returned \$7,714 to the FEHBP for these PRB overcharges, no further action is required for this questioned amount.

**Recommendation 7**

We recommend that the contracting officer allow the Plan to charge the FEHBP \$6,452 for PRB costs that were undercharged to the FEHBP in 2013. However, since we verified that the Plan already charged \$6,452 to the FEHBP for this PRB undercharge, no further action is required for this questioned amount.

## **C. CASH MANAGEMENT**

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

## **D. FRAUD AND ABUSE PROGRAM**

### **1. Special Investigations Unit**

### **Procedural**

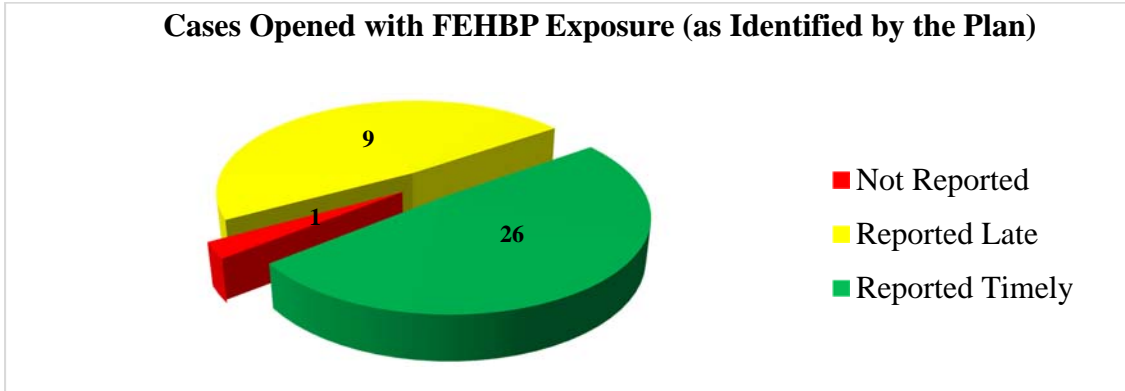
**The Plan and FEPDO did not report, or did not timely report, all fraud and abuse cases to the OIG.**

The Plan and the Association's FEP Director's Office (FEPDO) are not in total compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter (CL) 2014-29. Specifically, the Plan and FEPDO did not report, or did not timely report, all fraud and abuse cases to the OIG. This non-compliance may be due in part to incomplete and/or untimely reporting of fraud and abuse cases to the FEPDO by the Plan, as well as inadequate controls at the FEPDO to monitor and communicate the Plan's cases to the OIG. Without awareness of these existing potential fraud and abuse issues, the OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole.

CL 2014-29 (Office of Personnel Management Federal Employees Health Benefits Fraud, Waste and Abuse), dated December 19, 2014, states that all Carriers "are required to submit a written notification to the OPM-OIG within 30 working days when there is potential reportable FWA that has occurred against the FEHB Program. OPM-OIG considers a potential reportable FWA as, after preliminary review of the complaint the carrier takes an affirmative step to investigate the complaint." There is no dollar threshold for this requirement.

The FEPDO is primarily responsible for timely reporting fraud and abuse cases to the OIG (i.e., within 30 working days of becoming aware of a fraud or abuse issue). In order to comply with this timeliness requirement, the FEPDO requires the BCBS plans to enter fraud and abuse cases into the Fraud Information Management System (FIMS). FIMS is a multi-user, web-based FEP case-tracking database that the FEPDO's Special Investigations Unit (SIU) developed in-house. FIMS is used by the BCBS plans' SIUs and the FEPDO's SIU to track and report potential fraud and abuse activities. The FEPDO is responsible for the maintenance and oversight of this system as well as reporting to the OIG all fraud and abuse cases that are entered into FIMS by the plans.

For the period January 1, 2015, through March 31, 2016, the Plan opened 36 fraud and abuse cases with potential FEP exposure. Based on our review of these 36 cases, we determined that the FEPDO did not report 1 case to the OIG and untimely reported 9 cases. The remaining 26 cases were timely reported to the OIG. In addition, although the Plan is substantially compliant, we found that the Plan had not reported one of the opened cases into FIMS and also untimely reported one of these opened cases into FIMS, which may have contributed to the FEPDO not reporting or not timely reporting cases to the OIG.



Ultimately, both the Plan’s not reporting or untimely reporting of potential FEP cases to the FEPDO’s SIU and the FEPDO SIU’s inadequate controls to monitor the Plan’s FIMS entries, and notify the OIG, have resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2014-29. Timely case notifications allow the OIG to investigate whether other FEHBP Carriers are exposed to the identified fraudulent activity. Consequently, the untimely or lack of OIG notification may result in additional improper payments being made by other FEHBP Carriers.

**Recommendation 8**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29. We also recommend that the contracting officer instruct the Association to provide the Plan with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.



**Association Response:**

*The Association states, “The Plan’s policies and procedures are in accordance with the FEPDO Fraud Waste and Abuse Manual which is compliant with CL 2014-29. A manual processing error resulted in one case not being reported in FIMS and one case that was not reported timely. As a corrective action; the Plan provided training to the affected staff on the FWA Manual and FIMS reporting process and the case OIG cited as not being reported was subsequently reported in FIMS.”*

**Recommendation 9**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the FEPDO’s SIU has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29.

**Association Response:**

*The Association states, “BCBSA respectfully disagrees with this recommendation. BCBSA reviewed and modified its processes and revised its Fraud Waste and Abuse Manual in order to ensure compliance with CL 2011-13 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).”*

*The Association also states, “BCBSA agrees that 9 cases out of 36 cases (with FEP exposure), or 25%, were not reported timely, ranging from 2 to 112 days after the case entry into FIMS. This determination is based on the authoritative guidance given to BCBS Plan SIUs, to calculate timeliness from the date of FIMS entry (as evidence of an affirmative action being taken) and the number of working days, excluding federal holidays, to the OPM OIG notification date. BCBSA continues to disagree that two cases were not reported timely based on the FEPDO FWA Manual instructions to the Plans.”*

**OIG Comment:**

We continue to recommend that the contracting officer direct the Association to provide evidence or supporting documentation ensuring that the FEPDO's SIU has implemented the necessary procedural change to ensure that all fraud and abuse cases are timely submitted to the OIG. Our analysis of this Plan's fraud and abuse cases clearly demonstrates that the FEPDO's SIU continues to report cases late to the OIG. Of the 36 cases with FEP exposure during the period January 1, 2015, through March 31, 2016, we determined and the FEPDO agreed that 9 cases were untimely reported to the OIG.

# IV. SCHEDULE A - QUESTIONED CHARGES

BLUECROSS BLUESHIELD OF MASSACHUSETTS BOSTON, MASSACHUSETTS QUESTIONED CHARGES							
AUDIT FINDINGS	2011	2012	2013	2014	2015	2016	TOTAL
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>B. ADMINISTRATIVE EXPENSES</b>							
1. Idle Facility Costs*	\$0	\$19,133	\$10,414	\$19,616	\$41,138	\$1,508	\$91,809
2. Unallowable and/or Unallocable Natural Accounts*	0	14,794	231	305	333	255	15,918
3. Administrative Expense Reimbursement Credit	0	0	0	0	2,445	0	2,445
4. Post-Retirement Benefit Costs	0	0	(6,452)	6,175	1,539	0	1,262
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	\$0	\$33,927	\$4,193	\$26,096	\$45,455	\$1,763	\$111,434
<b>C. CASH MANAGEMENT</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>D. FRAUD AND ABUSE PROGRAM</b>							
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL FRAUD AND ABUSE PROGRAM</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL QUESTIONED CHARGES</b>	\$0	\$33,927	\$4,193	\$26,096	\$45,455	\$1,763	\$111,434
* We included lost investment income (LII) within audit findings B1 (\$3,486) and B2 (\$1,124). Therefore, no additional LII is applicable for these audit findings.							

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## APPENDIX

February 6, 2017

[REDACTED], Group Chief  
Experience-Rated Audits Group  
Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, Room 6400  
Washington, DC 20415-11000

Federal Employee Program  
1310 G Street, N.W.  
Washington, D.C. 20005  
202.626.4800

**Reference: OPM DRAFT AUDIT REPORT  
BlueCross BlueShield of Massachusetts  
Report Number 1A-10-11-16-027 (December 15, 2016)**

Dear [REDACTED]:

This is BlueCross BlueShield of Massachusetts's response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). The Blue Cross and Blue Shield Association (BCBSA) and the Plan are committed to enhancing existing procedures on issues identified by OPM. Please consider this feedback when updating the OPM Final Audit Report.

Our comments concerning the findings in the report are as follows:

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

The audit disclosed no findings pertaining to miscellaneous health benefit payments and credits Plan

**Response:**

No Plan Response required.

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**B. ADMINISTRATIVE EXPENSES**

**1. Idle Facility Costs \$91,809**

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$88,323 to the FEHBP for the questioned idle facility costs. However, since we verified that the Plan returned \$88,323 to the FEHBP for these questioned idle facility costs, no further action is required for this amount.

**Plan Response**

The Plan agrees with this Recommendation

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$3,486 to the FEHBP for LII on the questioned idle facility costs. However, since we verified that the Plan returned \$3,486 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agrees with this Recommendation.

**2. Unallowable and/or Unallocable Natural Accounts \$15,918**

**Recommendation 3**

We recommend that the contracting officer require the Plan to return \$14,794 to the FEHBP for the questioned natural accounts. However, since we verified that the Plan returned \$14,794 to the FEHBP for these questioned natural account expenses, no further action is required for this amount.

**Plan Response**

The Plan agrees with this Recommendation.



**C. CASH MANAGEMENT**

The audit disclosed no findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

**Plan Response**

No Plan Response required

**D. FRAUD AND ABUSE**

**1. Special Investigations Unit**

**Procedural**

**Recommendation 7**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse). We also recommend that the contracting officer instruct the Association to provide the Plan with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.

**Plan Response**

The Plan's policies and procedures are in accordance with the FEPDO Fraud Waste and Abuse Manual which is compliant with CL 2014-29. A manual processing error resulted in one case not being reported in FIMS and one case that was not reported timely. As a corrective action; the Plan provided training to the affected staff on the FWA Manual and FIMS reporting process and the case OIG cited as not being reported was subsequently reported in FIMS.



## **Recommendation 8**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the FEPDO's SIU has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2011-13 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).

## **BCBSA Response**

BCBSA respectfully disagrees with this recommendation. BCBSA reviewed and modified its processes and revised its Fraud Waste and Abuse Manual in order to ensure compliance with CL 2011-13 and CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).

The BCBSA disagreement stems from the underlying finding that gave rise to this recommendation, which centers around the FEPDO SIU 2015 FEP FWA Program Standards Manual instruction to the Plans on reporting cases in FIMS. The Manual instructs BCBS Plans to enter cases into FIMS within 20 working days of the Plan SIU *taking an affirmative step to pursue a provider or member for potential fraud waste or abuse and involving FEP claims.*

The determination of FEP paid claims and/or exposure is a routine part of the preliminary review stage, or triage. Carrier Letter 2014-29 **does not** make reference to a time limit for the preliminary review stage of a complaint. The BCBSA Manual instruction is consistent with the guidance of the OIG Task Force as referenced in the Presentation of the OIG Task Force Meeting on January 28, 2016 which states that after the preliminary review or triage is complete, **and** an affirmative step is taken to further review the complaint or allegation for potential FWA against FEP, the case becomes reportable to OPM OIG.

Please note that the range stated in the draft report is based on calculating the number of calendar days between the actual OPM OIG notification date and the OIG calculated OPM OIG notification due date (based on the date FEP exposure was identified).

BCBSA agrees that 9 cases out of 36 cases (with FEP exposure), or 25%, were not reported timely, ranging from 2 to 112 days after the case entry into FIMS. This determination is based on the authoritative guidance given to BCBS Plan SIUs, to calculate timeliness from the date of FIMS entry (as evidence of an affirmative action being taken) and the number of working days, excluding federal holidays, to the OPM OIG notification date. BCBSA continues to disagree that two cases were not reported timely based on the FEPDO FWA Manual instructions to the Plans.

Thank you for this opportunity to respond to the recommendations included in this draft report. If you have any questions, please contact me at [REDACTED]

Sincerely,

[REDACTED], CISA, CRMA,  
Managing Director, FEP Program Assurance

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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

Report No. 1A-10-11-16-027

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