



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

Final Audit Report

**AUDIT OF
BLUECROSS BLUESHIELD OF RHODE ISLAND
PROVIDENCE, RHODE ISLAND**

Report Number 1A-10-60-16-056

July 27, 2017

-- CAUTION --

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EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of Rhode Island

Report No. 1A-10-60-16-056

July 27, 2017

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Rhode Island (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 from 2013 through March 31, 2016, as well as 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 2013 through March 31, 2016, and the Plan's Fraud and Abuse (F&A) Program activities from 2015 through March 31, 2016.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$466,401 in hospital settlement recoveries, administrative expenses, and lost investment income (LII). The BlueCross BlueShield Association (Association) and Plan agreed with all of the questioned amounts.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$129,923 for hospital settlement recoveries that had not been returned to the FEHBP and \$4,460 for applicable LII. We verified that the Plan has returned these questioned amounts to the FEHBP.
- Administrative Expenses – We questioned \$332,018 in administrative expenses and LII, consisting of \$151,683 for pension cost credit adjustments, \$108,053 for quality improvement cost overcharges, \$57,588 for unallowable and/or unallocable cost center and natural account expenses, and \$14,694 for applicable LII. 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 Plan is in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2014-29.

ABBREVIATIONS

Association	BlueCross BlueShield Association
BCBS	BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield
CC	Cost Center
CFR	Code of Federal Regulations
Contract	Contract CS 1039
FAR	Federal Acquisition Regulations
FEHB	Federal Employees Health Benefits
FEHBAR	Federal Employees Health Benefits Acquisition Regulations
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employee Program
FEPDO	Federal Employee Program Director's Office
F&A	Fraud and Abuse
LII	Lost Investment Income
NA	Natural Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Plan	BlueCross BlueShield of Rhode Island
SIU	Special Investigations Unit
SPI	Special Plan Invoice

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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 Rhode Island (Plan). The Plan is located in Providence, Rhode Island.

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 (FEP¹) 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

¹ 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-10-60-03-020, dated November 3, 2003), for contract years 1999 through 2001, have been satisfactorily resolved. We also included this Plan in each of the following recent focused audits that covered a sample of BCBS plans:

- Final Report No. 1A-99-00-16-010 (dated July 18, 2016) for aging FEP refunds as of June 30, 2015, and fraud recoveries and medical drug rebates from 2012 through June 30, 2015;
- Final Report No. 1A-99-00-14-068 (dated November 16, 2015) for pension and post-retirement benefit costs from 2011 through 2013; and,
- Final Report No. 1A-99-00-13-018 (dated January 17, 2014) for cash management activities and practices related to FEHBP funds from 2011 through September 30, 2012.

All findings related to the Plan from these recent focused audits 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 January 31, 2017; and were presented in detail in a draft report, dated February 22, 2017. 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.

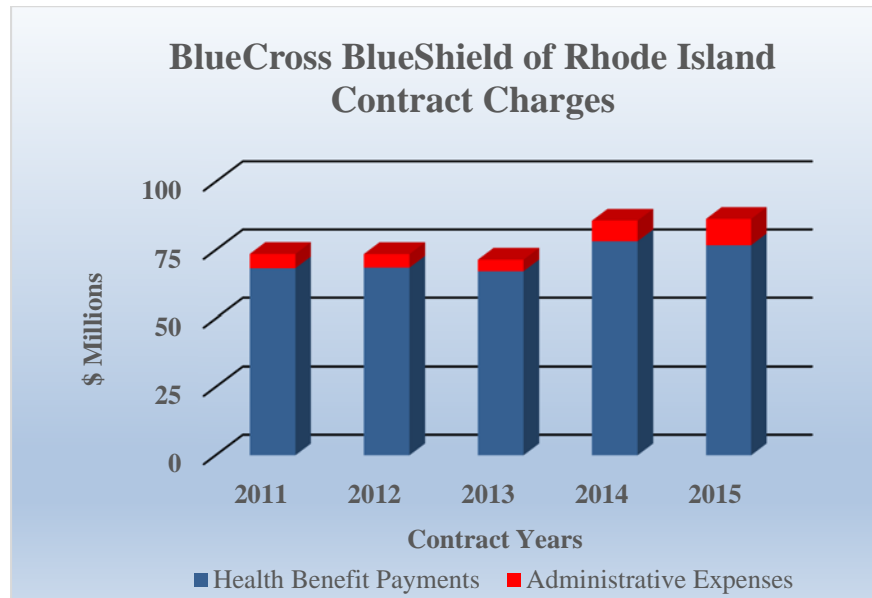
Fraud and Abuse Program

- 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 370 and 870 for contract years 2011 through 2015. During this period, the Plan paid approximately \$359 million in FEHBP health benefit payments and charged the FEHBP \$32 million in administrative expenses.



Specifically, we reviewed the Plan's miscellaneous health benefit payments and credits, such as refunds and provider audit recoveries, and cash management activities and practices from 2013 through March 31, 2016, as well as administrative expenses from 2011 through 2015. We also reviewed the Plan's Fraud and Abuse (F&A) Program activities from 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 Providence, Rhode Island on various dates from October 25, 2016, through December 16, 2016. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Washington, D.C. through January 31, 2017. 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. For the period 2013 through March 31, 2016, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 75 FEP health benefit refunds returned via auto recoupments, totaling \$3,410,053 (from a universe of [REDACTED] FEP refunds returned via auto recoupments, totaling \$ [REDACTED]). Our high dollar sample included the 50 highest auto recoupment amounts from the Plan's new claims system ("Facets") for September 2014 through March 2016, and the 25 highest auto recoupment amounts from the Plan's previous claims system ("LRSP") for 2013 through August 2014.
- A high dollar sample of 54 FEP health benefit refund cash receipts, totaling \$1,676,252 (from a universe of [REDACTED] FEP refund receipt amounts, totaling \$ [REDACTED]). Our high dollar sample included all refund receipt amounts of \$4,000 or more.

Other Health Benefit Payments, Credits, and Recoveries

- 13 high dollar provider audit recoveries, totaling \$813,837, from a universe of [REDACTED] recoveries, totaling \$ [REDACTED] in net FEP recoveries. For this sample, we selected all provider audit recoveries of \$8,000 or more.
- All [REDACTED] FEP hospital settlement recovery amounts, totaling \$ [REDACTED].
- All [REDACTED] FEP medical drug rebate amounts, totaling \$ [REDACTED].
- 10 high dollar subrogation recoveries, totaling \$160,952, from a universe of [REDACTED] FEP recoveries, totaling \$ [REDACTED]. For this sample, we selected all subrogation recoveries of \$4,000 or more.
- Three fraud recoveries, totaling \$18,678, from a universe of [REDACTED] recoveries, totaling \$ [REDACTED]. For this sample, we selected the three highest dollar subrogation recoveries.
- 10 high dollar special plan invoices (SPI), totaling \$45,533 in net FEP payments, from a universe of [REDACTED] SPI's, totaling \$ [REDACTED] in net FEP credits. When applicable, we selected the SPI's with the two highest dollar credit amounts and the SPI's with the two highest dollar charge amounts from each year for SPI pay codes related to miscellaneous health benefit payments and credits. SPI's are used by the Plan to process miscellaneous health benefit payment and credit transactions that do not involve primary claim payments or checks.

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 we did not use statistical sampling.

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, employee health benefits, non-recurring projects, Affordable Care Act fees, and out-of-system adjustments.² We used the FEHBP contract, the FAR, and the FEHBP to determine the allowability, allocability, and reasonableness of 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 the letter of credit account drawdowns, working capital calculations, adjustments and/or balances, and interest income transactions from 2013 through March 31, 2016, as well as the Plan's dedicated FEP investment account balance as of March 31, 2016.

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.

² In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEP. The Plan allocated administrative expenses of \$ [REDACTED] to the FEHBP from [REDACTED] cost centers that contained [REDACTED] natural accounts. From this universe, we selected a judgmental sample of 48 cost centers to review, which totaled \$16,783,425 in expenses allocated to the FEHBP. We also selected a judgmental sample of 43 natural accounts to review, which totaled \$22,884,417 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. 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, since we did not use statistical sampling.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Hospital Settlements

\$134,383

Our audit determined that the Plan had not returned seven hospital settlement recoveries, totaling \$129,923, to the FEHBP as of March 31, 2016. The Plan subsequently returned these amounts to the FEHBP from 375 to 1,060 days late and after receiving our audit notification letter. Additionally, the Plan untimely deposited these hospital settlements into the FEP investment account, resulting in lost investment income (LII) of \$4,460. As a result of our audit, the Plan returned \$134,383 to the FEHBP, consisting of \$129,923 for the questioned hospital settlement recoveries and \$4,460 for LII on these funds returned untimely to the FEHBP.

Contract CS 1039, 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.” Also, based on an agreement between OPM and the Association, dated March 26, 1999, BCBS plans have 30 days to return health benefit refunds and recoveries to the FEHBP before LII will commence to be assessed.

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., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

For the period 2013 through March 31, 2016, we identified [REDACTED] hospital settlements that included \$ [REDACTED] in FEP recoveries. We reviewed all of these hospital settlements to determine if the Plan properly allocated and timely returned FEP’s allocable recovery amounts for these settlements to the FEHBP.

The Plan returned hospital settlement recoveries of \$129,923 to the FEHBP from 375 to 1,060 days late and after the audit notification date.

Based on our review, we determined that FEP’s allocable recovery amounts for these hospital settlements were properly calculated, but the Plan had not returned all of these amounts to the FEHBP as of March 31, 2016. Specifically, we found that FEP’s recovery amounts for seven of the hospital settlements, totaling \$129,923, were returned to the FEHBP on various dates in July 2016, more than 60 days after receipt (i.e., from 375 to 1,060 days late) and after receiving our audit notification letter (dated April 1, 2016). Therefore, we are questioning this amount as a monetary finding. Additionally, the Plan untimely deposited these hospital settlement recoveries into the FEP investment account, resulting in LII of \$4,460. In total, the Plan returned \$134,383 to the FEHBP for this audit finding, consisting of \$129,923 for the questioned hospital settlement recoveries and \$4,460 for applicable LII. We reviewed and accepted the Plan’s LII calculation.

Association Response:

The Association and Plan agree with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$134,383 to the FEHBP in July and August of 2016 for this audit finding, consisting of \$129,923 for the questioned hospital settlement recoveries and \$4,460 for applicable LII.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$129,923 to the FEHBP for the questioned hospital settlement recoveries. However, since we verified that the Plan returned \$129,923 to the FEHBP for these questioned hospital settlement recoveries, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$4,460 to the FEHBP for LII on the questioned hospital settlement recoveries. However, since we verified that the Plan returned \$4,460 to the FEHBP for the questioned LII, no further action is required for this LII amount.

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B. ADMINISTRATIVE EXPENSES

1. Pension Costs

\$159,066

The Plan had not allocated and credited the FEHBP \$136,578 for a 2014 actuarially determined net periodic pension credit and \$15,105 for a 2013 pension curtailment. As a result of our finding, the Plan returned \$159,066 to the FEHBP, consisting of \$151,683 for the questioned pension cost credit adjustments and \$7,383 for applicable LII.

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.”

48 CFR 31.205-6(j)(1) states, “Pension plans are normally segregated into two types of plans: defined-benefit and defined-contribution pension plans. The contractor shall measure, assign, and allocate the costs of all defined-benefit pension plans and the costs of all defined-contribution pension plans in compliance with 48 CFR 9904.412 (Cost Accounting Standard for Composition and Measurement of Pension Cost) and 48 CFR 9904.413 (Adjustment and Allocation of Pension Cost). Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j)(1)(i) and in paragraphs (j)(2) through (j)(6) of this subsection.”

48 CFR 31-205-6(j)(3) states, “For segment closings, pension plan terminations, or curtailment of benefits, the amount of the adjustment shall be - (A) For contracts and subcontracts that are subject to full coverage under the Cost Accounting Standards (CAS) Board rules and regulations, the amount measured, assigned, and allocated in accordance with 48 CFR 9904.413-50(c)(12); and (B) For contracts and subcontracts that are not subject to full coverage under the CAS, the amount measured, assigned, and allocated in accordance with 48 CFR 9904.413-50(c)(12), except the numerator of the fraction at 48 CFR 9904.413-50(c)(12)(vi) is the sum of the pension plan costs allocated to all non-CAS-covered contracts and subcontracts that are subject to Subpart 31.2 . . . For all other situations where assets revert to the contractor, or such assets are constructively received by it for any reason, the contractor shall, at the Government’s option, make a refund or give a credit to the Government for its equitable share of the gross amount withdrawn. The Government’s equitable share shall reflect the Government’s participation in pension costs through those contracts . . . Excise taxes on pension plan asset reversions or withdrawals . . . are unallowable in accordance with 31.205-41(b)(6).”

In general, the FAR limits the amount of pension cost that may be charged to a government contract to the amount of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standard 412 and 413, whichever is lower. All cash contributions must be made by the time set for filing of the Federal income tax return or any extension.

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.

Our audit covered pension costs that were charged to the FEHBP for contract years 2014 and 2015, since we previously audited this Plan's 2011 through 2013 pension costs during a recent focused BCBS audit of pension and post-retirement benefit costs (Report No. 1A-99-00-14-068, dated November 16, 2015). For 2014, the Plan did not charge the FEHBP for pension costs. For 2015, the Plan credited the FEHBP \$30,044 for an actuarially determined net periodic pension credit. Accordingly, we reviewed the Plan's pension cost documentation to determine if the amounts were properly charged or credited to the FEHBP in accordance with the contract and applicable federal regulations.

The Plan had not allocated and credited the FEHBP \$151,683 for 2013 and 2014 pension cost adjustments.

Based on our review, we determined that the Plan properly allocated and credited the actuarially determined net periodic pension credit to the FEHBP for 2015. However, the Plan had not allocated and credited an actuarially determined net periodic pension credit to the FEHBP for 2014. Specifically, the Plan recorded this pension credit of \$ [REDACTED] for 2014, but had not allocated a share of the credit to the FEP. The FEP should have been allocated \$136,578 of this pension credit.

During our fieldwork phase, we also found out that the Plan curtailed the pension plan in 2013. As a result, we expanded our scope to include a review of the Plan's 2013 pension curtailment, for the purpose of determining if the Plan should have allocated a share of this curtailment to the FEP. Based on our review, we determined that the Plan should have allocated and credited a share of this pension curtailment to the FEHBP. Specifically, the Plan recorded a pension curtailment credit of \$ [REDACTED] in 2013, but had not allocated a share of this credit to the FEP. The FEP should have been allocated \$15,105 of this pension curtailment credit.

As a result, the Plan returned \$159,066 to the FEHBP for this audit finding, consisting of \$151,683 for the questioned pension cost credit adjustments (\$136,578 plus \$15,105) and \$7,383 for applicable LII. We reviewed and accepted the Plan's LII calculation.

Association Response:

The Association and Plan agree with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$159,066 to the FEHBP in February 2017 for this audit finding, consisting of \$151,683 for the questioned pension cost credit adjustments and \$7,383 for applicable LII.

Recommendation 3

We recommend that the contracting officer require the Plan to return \$151,683 to the FEHBP for the questioned pension cost credit adjustments. However, since we verified that the Plan returned \$151,683 to the FEHBP for these questioned credit adjustments, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$7,383 to the FEHBP for LII on the questioned pension cost credit adjustments. However, since we verified that the Plan returned \$7,383 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Cost Settlement Adjustment for Quality Improvement Costs \$112,024

Our audit determined that the Plan had not made a cost settlement adjustment to credit the FEHBP for 2014 quality improvement costs. As a result of this finding, the Plan returned \$112,024 to the FEHBP, consisting of \$108,053 for quality improvement cost overcharges and \$3,971 for applicable LII.

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

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.

For contract years 2013 through 2015, the FEP Director's Office (FEPDO) approved that the Plan could withdraw a monthly expense allowance from the LOCA for the budgeted quality improvement costs, resulting in charges of \$1,401,274 to the FEHBP (\$ [REDACTED] in 2013, \$ [REDACTED] in 2014, and \$ [REDACTED] in 2015). Following each contract year, the Plan and FEPDO performed a cost settlement, where the Plan made an adjustment based on the difference between the Plan's budgeted costs and the actual settled costs. We reviewed these cost settlements and applicable supporting documentation to determine if the Plan made the necessary adjustments to credit or charge the FEHBP for the cost settlement differences.

The Plan overcharged the FEHBP \$108,053 for quality improvement costs in 2014.

Based on our review, we determined that the Plan correctly made the cost settlement adjustments for 2013 and 2015. However, the Plan had not made the applicable adjustment to credit the FEHBP \$108,053 for the 2014 quality improvement cost settlement. As a result, the Plan returned \$112,024 to the FEHBP for this audit finding, consisting of \$108,053 for quality improvement costs that were overcharged to the FEHBP in 2014 and \$3,971 for applicable LII calculated on these overcharges. We reviewed and accepted the Plan's LII calculation.

Association Response:

The Association and Plan agree with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$112,024 to the FEHBP in November and December 2016 for this audit finding, consisting of \$108,053 for quality improvement cost overcharges and \$3,971 for applicable LII.

Recommendation 5

We recommend that the contracting officer disallow \$108,053 for quality improvement costs that were overcharged to the FEHBP in 2014. However, since we verified that the Plan returned \$108,053 to the FEHBP for the questioned quality improvement costs, no further action is required for this amount.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$3,971 to the FEHBP for LII on the questioned quality improvement costs. However since we verified that the Plan returned \$3,971 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Unallowable and/or Unallocable Expenses **\$60,928**

The Plan charged unallowable and/or unallocable cost center and natural account expenses of \$57,588 to the FEHBP. As a result of this finding, the Plan returned \$60,928 to the FEHBP, consisting of \$57,588 for the questioned expenses and \$3,340 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.

In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEP. For the period 2011 through 2015, the Plan allocated administrative expenses of \$ [REDACTED] to the FEHBP from [REDACTED] cost centers that contained [REDACTED] natural accounts. From this universe, we selected a judgmental sample of 48 cost centers to review, which totaled \$16,783,425 in expenses allocated to the FEHBP. We also selected a judgmental sample of 43 natural accounts to review, which totaled \$22,884,417 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected the cost centers and natural accounts based on high dollar amounts, a trend

analysis, and our nomenclature review. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness.

The Plan charged the FEHBP \$57,588 for unallowable and/or unallocable expenses.

Based on our review, we determined that the Plan allocated and charged expenses to the FEHBP from three cost centers (CC) and four natural accounts (NA) that were expressly unallowable and/or did not benefit the FEHBP or only minimally benefited the FEHBP.

The following schedule is a summary of these questioned CC and NA expenses that were inappropriately charged to the FEHBP from 2011 through 2015.

CC or NA Number	CC or NA Name	Reason for Questioning	Amount Questioned
████████	Marketing Incentives - FEP	Unallocable	\$37,012
████████	Miscellaneous - Cash Over and Short	Unallocable	8,212
████████	Legal - Litigation	Unallowable	7,891
████████	Travel - Non Allowable	Unallowable	2,320
████████	Contributions - Non Allowable	Unallowable	1,548
████████	In-House Legal	Unallowable	508
████████	Assistant Vice President of Sales / Manager of Market Enrollment Operations	Unallocable	97
Total			\$57,588

In regard to the questioned expenses charged to the FEHBP, 48 CFR 31-205-8 (Contributions and Donations), 48 CFR 31-205-14 (Entertainment Costs), and 48 CFR 31-205-47(f)(3) (Costs Related to Legal and Other Proceedings) also provide specific criteria to the extent that such costs are expressly unallowable. Based on our review of the Plan’s documentation, these questioned CC and NA charges are not in compliance with the federal regulations.

In total, the Plan returned \$60,928 to the FEHBP for this audit finding, consisting of \$57,588 for unallowable and/or unallocable CC and NA expenses that were charged to the FEHBP from 2011 through 2015 and \$3,340 for applicable LII. We reviewed and accepted the Plan’s LII calculation.

Association Response:

The Association and Plan agree with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$60,928 to the FEHBP in February 2017 for this audit finding, consisting of \$57,588 for unallowable and/or unallocable CC and NA expenses and \$3,340 for applicable LII.

Recommendation 7

We recommend that the contracting officer require the Plan to return \$57,588 to the FEHBP for the questioned unallowable and/or unallocable CC and NA expenses. However, since we verified that the Plan returned \$57,588 to the FEHBP for these questioned expenses, no further action is required for this amount.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$3,340 to the FEHBP for LII on the questioned unallowable and/or unallocable CC and NA expenses. However, since we verified that the Plan returned \$3,340 to the FEHBP for the questioned LII, no further action is required for this LII 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

The Plan timely entered all fraud and abuse cases into the Association's FIMS.

The audit disclosed no findings pertaining to the Plan's F&A Program activities. For the period 2015 through March 31, 2016, the Plan timely entered all fraud and abuse cases into the Association's Fraud Information Management System (FIMS).³ Overall, we determined that the Plan is in compliance with the communication and reporting requirements for fraud and abuse cases set forth in the FEHBP Carrier Letter 2014-29.

³ FIMS is a multi-user, web-based FEP case-tracking database that the Association's FEP Special Investigations Unit (SIU) developed in-house. FIMS is used by the local BCBS plans' SIUs and the Association's FEP SIU to track and report potential fraud and abuse activities.

IV. SCHEDULE A - QUESTIONED CHARGES

BLUECROSS BLUESHIELD OF RHODE ISLAND PROVIDENCE, RHODE ISLAND							
QUESTIONED CHARGES							
AUDIT FINDINGS	2012	2013	2014	2015	2016	2017	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS							
1. Hospital Settlements*	\$0	\$9,902	\$53,916	\$68,956	\$1,609	\$0	\$134,383
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$0	\$9,902	\$53,916	\$68,956	\$1,609	\$0	\$134,383
B. ADMINISTRATIVE EXPENSES							
1. Pension Costs*	\$0	\$15,105	\$136,889	\$3,414	\$3,325	\$333	\$159,066
2. Cost Settlement Adjustment for Quality Improvement Costs*	0	0	108,053	1,847	2,124	0	112,024
3. Unallowable and/or Unallocable Expenses*	15,753	23,831	1,209	18,747	1,262	126	60,928
TOTAL ADMINISTRATIVE EXPENSES	\$15,753	\$38,936	\$246,151	\$24,008	\$6,711	\$459	\$332,018
C. CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$0	\$0
D. FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$15,753	\$48,838	\$300,067	\$92,964	\$8,320	\$459	\$466,401
* We included lost investment income (LII) within audit findings A1 (\$4,460), B1 (\$7,383), B2 (\$3,971), and B3 (\$3,340). Therefore, no additional LII is applicable for these audit findings.							

Report No. 1A-10-60-16-056

APPENDIX



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

March 30, 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

**Reference: OPM DRAFT AUDIT REPORT
Rhode Island Blue Cross Blue Shield Plan
Audit Report Number: 1A-10-60-16-056**

Dear [REDACTED]:

This is our response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) concerning the Rhode Island Blue Cross Blue Shield Plans.

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

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Hospital Settlements \$134,383

Recommendation 1

We recommend that the contracting officer require the Plan to return \$129,923 to the FEHBP for the questioned hospital settlement recoveries. However, since we verified that the Plan returned \$129,923 to the FEHBP for these questioned hospital settlement recoveries, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

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Recommendation 2

We recommend that the contracting officer require the Plan to return \$4,460 to the FEHBP for LII on the questioned hospital settlement recoveries. However, since we verified that the Plan returned \$4,460 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

B. ADMINISTRATIVE EXPENSES

1. Pension Costs \$159,066

Recommendation 3

We recommend that the contracting officer require the Plan to return \$151,683 to the FEHBP for the questioned pension cost adjustments. However, since we verified that the Plan returned \$151,683 to the FEHBP for these questioned pension cost adjustments, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$7,383 to the FEHBP for LII on the questioned pension cost adjustments. However, since we verified that the Plan returned \$7,383 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

2. Cost Settlement Adjustment for Quality Improvement Costs \$112,024

Recommendation 5

We recommend that the contracting officer disallow \$108,053 for quality improvement costs that were overcharged to the FEHBP in 2014. However, since we verified that the Plan returned \$108,053 to the FEHBP for the questioned quality improvement costs, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$3,971 to the FEHBP for LII on the questioned quality improvement costs. However since we verified that the Plan returned \$3,971 in questioned LII to the FEHBP, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

3. Unallowable and/or Unallocable Expenses \$60,928

Recommendation 7

We recommend that the contracting officer require the Plan to return \$57,588 to the FEHBP for the unallowable and/or unallocable expenses. However, since we verified that the Plan returned \$57,588 to the FEHBP for these unallowable and/or unallocable expenses, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$3,340 to the FEHBP for LII on the unallowable and/or unallocable expenses. However, since we verified that the Plan returned \$3,340 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated February 22, 2017, no further action is required.

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

Sincerely,

[REDACTED]

[REDACTED]

Managing Director, FEP Program Assurance

cc: [REDACTED], BCBS Rhode Island

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Report Fraud, Waste, and Mismanagement

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U.S. Office of Personnel Management
1900 E Street, NW
Room 6400
Washington, DC 20415-1100

Report No. 1A-10-60-16-056

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