



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

Final Audit Report

Subject:

AUDIT OF BLUECROSS BLUESHIELD OF ALABAMA BIRMINGHAM, ALABAMA

Report No. 1A-10-09-11-018

Date: November 21, 2011

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

Office of the
Inspector General

AUDIT REPORT

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
BlueCross BlueShield Association
Plan Code 10

BlueCross BlueShield of Alabama
Plan Codes 010/510
Birmingham, Alabama

REPORT NO. 1A-10-09-11-018

DATE: 11/21/2011

A handwritten signature in black ink, appearing to read "Michael R. Esser".

Michael R. Esser
Assistant Inspector General
for Audits



Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

EXECUTIVE SUMMARY

Federal Employees Health Benefits Program
Service Benefit Plan Contract CS 1039
BlueCross BlueShield Association
Plan Code 10

BlueCross BlueShield of Alabama
Plan Codes 010/510
Birmingham, Alabama

REPORT NO. 1A-10-09-11-018

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This final audit report on the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Alabama (Plan), in Birmingham, Alabama, questions \$590,620 in health benefit overcharges and \$68,729 in administrative expense undercharges. The BlueCross BlueShield Association (Association) agreed (*A*) with these questioned charges.

Our limited scope audit was conducted in accordance with Government Auditing Standards. The audit covered miscellaneous health benefit payments and credits from 2005 through September 30, 2010, as well as administrative expenses from 2005 through 2009 as reported in the Annual Accounting Statements. In addition, we reviewed the Plan's cash management practices related to FEHBP funds from 2005 through September 30, 2010.

The audit results are summarized as follows:

MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

- **██████████ Drug Rebates (A)** **\$574,995**

The Plan had not returned quarterly drug rebates of \$502,567 from the manufacturer of ██████████ to the FEHBP as of September 30, 2010. Subsequent to this date and after receiving our audit notification letter on October 1, 2010, the Plan returned these questioned drug rebates to the FEHBP, more than 60 days after receipt. The Plan also returned lost investment income (LII) of \$72,428 to the FEHBP calculated on these questioned drug rebates.

- **Health Benefit Refunds and Recoveries (A)** **\$7,995**

In one instance, the Plan did not provide documentation to support the return of a hospital credit balance audit (HCBA) recovery to the FEHBP. Also, the Plan returned 33 subrogation recoveries untimely to the FEHBP during the audit scope. As a result of this finding, the Plan returned \$7,995 to the FEHBP, consisting of \$4,794 for the unsupported HCBA recovery, \$1,051 for LII on this HCBA recovery, and \$2,150 for LII on the subrogation recoveries returned untimely to the FEHBP.

- **Hospital Settlements (A)** **\$7,630**

The Plan returned \$2,488,164 in hospital settlements untimely to the FEHBP. Since the Plan returned these hospital settlements to the FEHBP during the audit scope, we did not question this amount as a monetary finding. However, as a result of this finding, the Plan returned LII of \$7,630 to the FEHBP calculated on these hospital settlements.

ADMINISTRATIVE EXPENSES

- **BlueCross BlueShield Association Dues (A)** **\$7,127**

The Plan overcharged the FEHBP \$6,498 for Association dues in 2006 and undercharged the FEHBP \$623 in 2007. As a result of this finding, the Plan submitted prior period adjustments to the Federal Employee Program Director's Office to correct the overcharge in 2006 and undercharge in 2007, and returned LII of \$1,252 to the FEHBP calculated on the overcharge.

- **Pension Costs (A)** **(\$75,856)**

The Plan incorrectly calculated pension costs for 2005, resulting in an undercharge of \$75,856 to the FEHBP.

CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the findings pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

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I. INTRODUCTION AND BACKGROUND

INTRODUCTION

This final audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at BlueCross BlueShield of Alabama (Plan). The Plan is located in Birmingham, Alabama.

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

BACKGROUND

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

The BlueCross BlueShield Association (Association), on behalf of participating BlueCross and BlueShield plans, has entered into a Government-wide Service Benefit Plan contract (CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BlueCross and BlueShield plans throughout the United States to process the health benefit claims of its federal subscribers. The Plan is one of approximately 63 local BlueCross and BlueShield plans participating in the FEHBP.

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 BlueCross and BlueShield plans, and OPM.

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

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.

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

All findings from our previous audit of the Plan (Report No. 1A-10-09-05-087, dated February 27, 2007) for contract years 2002 through 2004 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; and were presented in detail in a draft report, dated May 16, 2011. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as the 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 promptly to the FEHBP.

Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

Cash Management

- To determine whether the Plan handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

SCOPE

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

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to Plan codes 010 and 510 for contract years 2005 through 2009. During this period, the Plan paid approximately \$1.8 billion in health benefit charges and \$68.7 million in administrative expenses (See Figure 1 and Schedule A).

Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, and fraud recoveries) and cash management activities for 2005 through September 30, 2010. We also reviewed administrative expenses for 2005 through 2009.

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

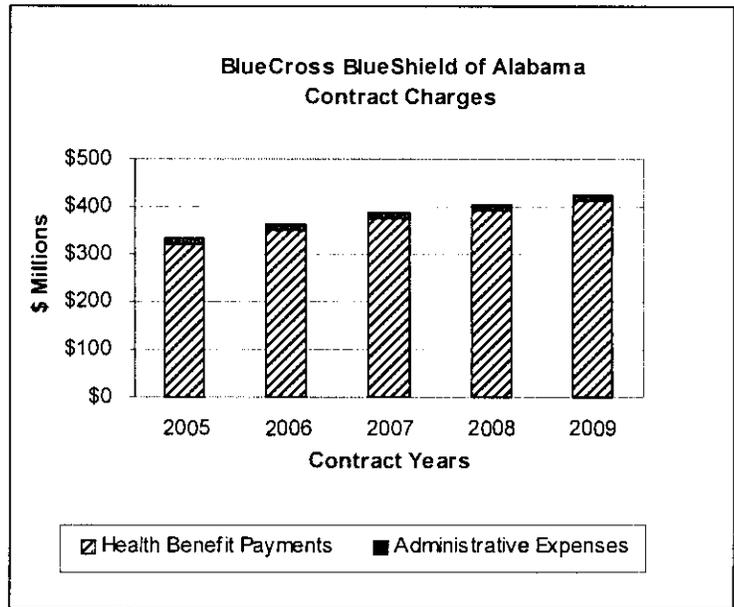


Figure 1 - Contract Charges

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the 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 testing, 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 Birmingham, Alabama from February 14 through March 4, 2011 and March 28 through April 15, 2011. Audit fieldwork was also performed at our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania.

METHODOLOGY

We obtained an understanding of the internal controls over the Plan's financial, cost accounting, and cash management systems by inquiry of Plan officials.

We interviewed Plan personnel and reviewed the Plan’s policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. We also judgmentally selected and reviewed 48 high dollar solicited health benefit refunds, totaling \$4,500,834 (from a universe of 20,149 solicited refunds, totaling \$8,837,508); 111 high dollar unsolicited health benefit refunds, totaling \$2,035,565 (from a universe of 32,834 unsolicited refunds, totaling \$7,498,683); 54 high dollar subrogation recoveries, totaling \$1,070,345 (from a universe of 19,132 recoveries, totaling \$6,829,933); 24 high dollar corporate-wide hospital settlements, totaling \$5,380,232 in net recoveries (from a universe of 778 settlements, totaling \$28,909,972 in net recoveries); 13 hospital credit balance audit recoveries, totaling \$48,516 (from a universe of 171 recoveries, totaling \$101,308); 11 high dollar concurrent utilization review recoveries, totaling \$76,740 (from a universe of 64 recoveries, totaling \$213,016); 20 special plan invoices, totaling \$67,562 in net credits (from a universe of 602 special plan invoices, totaling \$5,764,024 in net payments); all quarterly drug rebate allocations, totaling \$502,567; and 3 high dollar fraud recoveries, totaling \$1,147,254 (from a universe of 297 recoveries, totaling \$1,430,388), to determine if refunds and recoveries were promptly returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP.² The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2005 through 2009. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, out-of-system adjustments, prior period adjustments, pension, post-retirement, employee health benefits, executive compensation, subcontracts, non-recurring projects, gains and losses, return on investment, Association dues, and Health Insurance Portability and Accountability Act of 1996 compliance. We used the FEHBP contract, the FAR, and the FEHBAR to determine the allowability, allocability, and reasonableness of charges.

We also reviewed the Plan’s cash management to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

² See the audit findings for “██████████ Drug Rebates” (A1), “Health Benefit Refunds and Recoveries” (A2), and “Hospital Settlements” (A3) on pages 6 through 11 for specific details of our sample selection methodologies.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. [REDACTED] Drug Rebates \$574,995

The Plan had not returned quarterly drug rebates of \$502,567 from the manufacturer of [REDACTED] to the FEHBP as of September 30, 2010. Subsequent to this date and after receiving our audit notification letter, the Plan returned these questioned drug rebates to the FEHBP, more than 60 days after receipt. The Plan also returned lost investment income (LII) of \$72,428 to the FEHBP calculated on these questioned drug rebates.

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

Contract CS 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 BlueCross BlueShield Association, dated March 26, 1999, the 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 Section 611 of the Contract Disputes Act of 1978 (Public Law 95-563), which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

The Plan participates in a drug rebate program with the manufacturer of the [REDACTED] drug. Rebates are received quarterly by the Plan and credited to the participating groups. For the period January 1, 2005 through September 30, 2010, there were 21 quarterly drug rebates totaling \$10,673,295. The Plan allocated \$502,567 of these quarterly drug rebates to FEP. We selected and reviewed all of these quarterly drug rebate allocations for the purpose of determining if the Plan promptly returned these rebates to the FEHBP.

We determined that the Plan returned these [REDACTED] drug rebate allocations of \$502,567 to the FEHBP in an untimely manner (i.e., from 388 to 1,981 days after receipt). We verified that these drug rebates were returned to the FEHBP after September 30, 2010 (i.e., on February 17, 2011). Since the Plan returned these drug rebates to the FEHBP more than 60 days after receipt and after receiving our audit notification letter and standard audit request (dated October 1, 2010), we are questioning this amount as a monetary finding.

In total, we are questioning \$574,995, consisting of \$502,567 for [REDACTED] drug rebates and \$72,428 for LII calculated on these drug rebates.

Association's Response:

The Association agrees with this finding. The Association states that the Plan wire transferred \$574,995 to the Association's FEP investment account on February 10, 2011, and then the Association returned these funds to OPM on February 17, 2011.

The Association also states, "In response to this finding . . . the Plan implemented a corrective action plan to ensure that this issue does not reoccur. As part of the Plan's corrective action plan, formal training was provided to Plan staff to enhance communication on drug rebate accounting, so that the proper credit can be given to FEP in a timely manner. Lastly, the Plan has also implemented a Certification process that must be completed each month certifying that FEP has been properly credited for such rebate refunds."

OIG Comments:

We verified that the Plan returned the questioned amount of \$574,995 to the FEHBP, consisting of \$502,567 for [REDACTED] drug rebates and \$72,428 for LII on these rebates.

Recommendation 1

Since we verified that the Plan returned \$502,567 to the FEHBP for the questioned [REDACTED] drug rebates, no further action is required for this questioned amount.

Recommendation 2

Since we verified that the Plan returned \$72,428 to the FEHBP for LII on the questioned [REDACTED] drug rebates, no further action is required for this LII amount.

2. Health Benefit Refunds and Recoveries **\$7,995**

In one instance, the Plan did not provide documentation to support the return of a hospital credit balance audit (HCBA) recovery to the FEHBP. Also, the Plan returned 33 subrogation recoveries untimely to the FEHBP during the audit scope. As a result of this finding, the Plan returned \$7,995 to the FEHBP, consisting of \$4,794 for the unsupported HCBA recovery, \$1,051 for LII on this HCBA recovery, and \$2,150 for LII on the subrogation recoveries returned untimely to the FEHBP.

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

Contract CS 1039, Part III, section 3.8 states, “the Carrier shall retain and make available all records applicable to a contract term”

Hospital Credit Balance Audit Recoveries

For the period 2005 through September 30, 2010, there were 171 HCBA recoveries totaling \$101,308. From this universe, we selected and reviewed a judgmental sample of 13 HCBA recoveries, totaling \$48,516, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all recoveries of \$3,000 or more for 2005 and 2006, \$1,700 or more for 2007, \$2,000 or more for 2008, \$4,000 or more for 2009, and \$2,000 or more for 2010.

In one instance, the Plan did not provide documentation to support the return of a hospital credit balance audit recovery, totaling \$4,794, to the FEHBP. As a result of this finding, the Plan returned \$5,845 to the FEHBP, consisting of \$4,794 for the unsupported HCBA recovery and \$1,051 for LII on this recovery.

Subrogation Recoveries

For the period 2005 through September 30, 2010, there were 19,132 subrogation recoveries totaling \$6,829,933. From this universe, we selected and reviewed a judgmental sample of 54 subrogation recoveries, totaling \$1,070,345, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all subrogation recoveries of \$10,000 or more.

Based on our review, we determined that the Plan returned 33 subrogation recoveries, totaling \$697,219, to the FEHBP in an untimely manner. We verified that the Plan returned these recoveries to the FEHBP before receiving our audit notification letter and standard audit request. Therefore, we did not question the principal amounts of these subrogation recoveries as a monetary finding. However, we calculated LII of \$2,150 on these subrogation recoveries since the funds were returned untimely to the FEHBP. The Plan returned this LII amount to the FEHBP as a result of this finding.

Health Benefit Refunds

For the period 2005 through September 30, 2010, there were 20,149 solicited health benefit refunds totaling \$8,837,508. From this universe, we selected and reviewed a judgmental sample of 48 solicited refunds, totaling \$4,500,834, for the purpose of determining if the Plan promptly returned these refunds to the FEHBP. Our sample included all solicited refunds of \$10,000 or more for 2005 through 2009 and \$6,000 or more for 2010.

During this period, there were also 32,834 unsolicited health benefit refunds totaling \$7,498,683. From this universe, we selected and reviewed a judgmental sample of 111 unsolicited refunds, totaling \$2,035,565, for the purpose of determining if the Plan

promptly returned these refunds to the FEHBP. Our sample included all unsolicited refunds of \$10,000 or more for 2005, 2006, and 2008, and \$5,000 or more for 2007, 2009, and 2010.

Based on our review, we verified that the solicited and unsolicited refunds in these samples were promptly returned to the FEHBP.

Fraud Recoveries

For the period 2005 through September 30, 2010, there were 297 fraud recoveries totaling \$1,430,388. From this universe, we selected and reviewed a judgmental sample of three fraud recoveries, totaling \$1,147,254, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all fraud recoveries of \$20,000 or more. Based on our review, we verified that these three fraud recoveries in our sample were promptly returned to the FEHBP.

Concurrent Utilization Review Recoveries

For the period 2005 through September 30, 2010, there were 64 concurrent utilization review recoveries totaling \$213,016. From this universe, we selected and reviewed a judgmental sample of 11 concurrent utilization review recoveries, totaling \$76,740, for the purpose of determining if the Plan promptly returned these recoveries to the FEHBP. Our sample included all recoveries of \$5,000 or more for 2005 and 2007 and \$6,000 or more for 2008, 2009, and 2010. Our sample also included the only recovery reported in 2006. Based on our review, we determined that the recoveries in our sample were promptly returned to the FEHBP.

Association's Response:

The Association agrees with this finding. The Association states, "the Plan would like to point out that thirty-one of the thirty-three subrogation recoveries identified as not returned to the Program in a timely manner were previously identified as a finding in the Plan's 2009 IPA audit and all funds were returned to the Program in 2009, which was prior to the OPM Audit Notification Letter. As a result of the IPA Audit finding, the Plan calculated lost investment income of \$556 and wired the funds to BCBSA on October 2009. BCBSA wired the funds to OPM on October 23, 2009. Therefore, the FEHBP is due LII of \$3,201, which represents the OIG calculated LII of \$3,757 less the Plan's previously returned LII of \$556. The Plan also wired \$3,201 for the lost investment income related to the untimely return of subrogation refunds to BCBSA on June 16, 2011 and BCBSA returned the funds to the Program on June 28, 2011."

The Association also states that the Plan has implemented a corrective action plan to ensure that FEP refunds are deposited into the FEP investment account and returned to the FEHBP in a timely manner.

OIG Comments:

After reviewing the Association’s response and additional documentation provided by the Plan, we revised the questioned amount from the draft report to \$7,995. Based on the Association’s response and the additional documentation provided by the Plan, we determined that the Association and Plan agree with our revised questioned amount. We verified that the Plan returned \$7,995 to the FEHBP, consisting of \$4,794 for the questioned HCBA recovery and \$3,201 (\$1,051 plus \$2,150) for the questioned LII.

Recommendation 3

Since we verified that the Plan returned \$4,794 to the FEHBP for the questioned HCBA recovery, no further action is required for this questioned amount.

Recommendation 4

Since we verified that the Plan returned \$3,201 to the FEHBP for the questioned LII in this finding, no further action is required for this LII amount.

3. Hospital Settlements **\$7,630**

The Plan returned \$2,488,164 in hospital settlements untimely to the FEHBP. Since the Plan returned these hospital settlements to the FEHBP during the audit scope, we did not question this amount as a monetary finding. However, as a result of this finding, the Plan returned LII of \$7,630 to the FEHBP calculated on these hospital settlements.

As previously stated under A1, the Plan is required to promptly return these funds to the FEHBP with applicable LII.

From January 1, 2005 through September 30, 2010, there were 778 corporate-wide hospital settlements totaling \$28,909,972 in net recoveries. From this universe, we selected and reviewed a judgmental sample of 24 corporate-wide hospital settlements, totaling \$5,380,232 in net recoveries, for the purpose of determining if the Plan promptly returned or properly charged FEP’s allocable share for each of these settlements to the FEHBP. The sample included 13 hospital settlements with high dollar recoveries totaling \$28,946,170, as well as 11 hospital settlements with high dollar payments totaling \$23,565,938.

We determined that FEP’s allocable shares of the hospital settlements in our sample were returned or properly charged to the FEHBP. However, we found that 11 of these hospital settlements, totaling \$2,488,164 in credit allocations to FEP, were returned to the FEHBP in an untimely manner (i.e., from 11 to 38 days late). As a result, we calculated LII of \$7,630 on these hospital settlements since the funds were returned untimely to the FEHBP. The Plan returned this LII amount to the FEHBP.

Association’s Response:

The Association agrees with this finding. The Association states that the Plan wire transferred \$7,630 to the Association’s FEP investment account on June 16, 2011, and then the Association returned these funds to the FEHBP on June 28, 2011.

OIG Comments:

We verified that the Plan returned \$7,630 to the FEHBP for LII on hospital settlements returned untimely to the FEHBP.

Recommendation 5

Since we verified that the Plan returned \$7,630 to the FEHBP for LII on hospital settlements returned untimely to the FEHBP, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. BlueCross BlueShield Association Dues **\$7,127**

The Plan overcharged the FEHBP \$6,498 for Association dues in 2006 and undercharged the FEHBP \$623 in 2007. As a result of this finding, the Plan submitted prior period adjustments to the FEP Director’s Office to correct the overcharge in 2006 and undercharge in 2007, and returned LII of \$1,252 to the FEHBP calculated on the overcharge.

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.”

FEP Financial Policies and Procedures Bulletin Number 60 (Bulletin), dated April 1, 2000, contains the agreement between the Association and OPM governing the chargeability of national Association dues. The Bulletin provides guidance to BCBS plans with respect to charging the FEHBP for Association dues. The Bulletin also includes the methods acceptable for computing the amount of dues that can be charged to the FEHBP.

To determine the reasonableness of the amounts charged to the FEHBP for Association dues for 2005 through 2009, we reviewed the supporting documentation, including cost center charges and invoices, and determined that the Plan did not use the correct percentages to allocate Association dues to the FEHBP for 2006 and 2007. Therefore, we recalculated the cost allocations for FEP and determined that the FEHBP was overcharged by a net of \$5,875 for these years (i.e., overcharged by \$6,498 for 2006 and undercharged by \$623 for 2007).

In total, we are questioning \$7,127, consisting of \$6,498 for Association dues overcharged to the FEHBP in 2006, \$623 for Association dues undercharged to the FEHBP in 2007, and \$1,252 for applicable LII on the overcharge.

Association's Response:

The Association agrees with this finding. The Association states, "The Plan will review and revise . . . procedures to ensure that the correct percentage allocations are used when allocating BCBSA dues to FEP. The Plan submitted Prior Period Adjustment Forms to the FEPDO for the 2006 overcharge and the 2007 undercharge to FEP for BCBSA Dues. In addition, the Plan submitted a Special Plan Invoice in the amount of \$1,252 for the lost investment income related to the 2006 overcharge and wired funds to BCBSA for the 2006 overcharge and lost investment income related thereto. BCBSA wired the funds to the Program on June 28, 2011."

OIG Comments:

We verified that the Plan submitted prior period adjustments to the FEP Director's Office to correct the overcharge in 2006 and undercharge in 2007. We also verified that the Plan returned the overcharge of \$6,498 and applicable LII of \$1,252 to the FEHBP.

Recommendation 6

Since we verified that the Plan returned \$6,498 to the FEHBP for Association dues that were overcharged to the FEHBP in 2006, no further action is required for this questioned amount.

Recommendation 7

Since we verified that the Plan returned \$1,252 to the FEHBP for the questioned LII in this finding, no further action is required for this LII amount.

Recommendation 8

We recommend that the contracting officer allow the Plan to charge the FEHBP \$623 for Association dues that were undercharged to the FEHBP in 2007.

2. Pension Costs (\$75,856)

The Plan incorrectly calculated pension costs for 2005, resulting in an undercharge of \$75,856 to the FEHBP.

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

48 CFR 31.205-6(j)(2) states, “The cost of all defined-benefit pension plans shall be measured, allocated, and accounted for in compliance with the provisions of 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. The costs of all defined-contribution pension plans shall be measured, allocated, and accounted for in accordance with the provisions of 48 CFR 9904.412 and 48 CFR 9904.413. Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j)(2)(i) and in paragraphs (j)(3) through (8) of this subsection.”

48 CFR 31.205-6(j)(3)(i)(A) states that “pension costs . . . assigned to the current accounting period, but not funded during it, shall not be allowable in subsequent years (except that a payment made to a fund by the time set for filing the Federal income tax return or any extension thereof is considered to have been made during such taxable year).” Also, 48 CFR 31.205-6(j)(3)(ii) states, “Any amount funded in excess of the pension cost assigned to a cost accounting period is not allowable and shall be accounted for as set forth at 48 CFR 9904.412-50(a)(4), and shall be allowable in the future period to which it is assigned, to the extent it is allocable, reasonable, and not otherwise unallowable.”

The Plan has a defined benefit pension plan where an employer commits to paying employees a specific benefit for life beginning at their retirement. The amount of the benefit is known in advance and is usually based on factors such as age, earnings, and years of service. There is a maximum retirement benefit permitted under a defined benefit plan. Defined benefit plans do not have contribution limits.

Our review of pension costs disclosed that the Plan reported the pension funded amount for 2005 as \$41,583,457, instead of the actual funded amount of \$37,500,000. We recalculated FEP’s percentage share of the pension costs based on the CAS amount, which was lower than the actual funded amount, and also determined that FEP’s allocable share of the pension costs should have been 3.04 percent instead of 2.74 percent. As a result, we determined that FEP’s pension costs were understated by \$75,856 for 2005.

Association’s Response:

The Association agrees with this finding. The Association states, “The Plan has revised its procedures to ensure that the correct funded amount is used in the calculation to determine the allowable pension expense chargeable to FEP. The Plan submitted a Prior Period Adjustment Form to the FEPDO for the 2005 undercharge to FEP for Pension costs.”

Recommendation 9

We recommend that the contracting officer allow the Plan to charge the FEHBP an additional \$75,856 for pension costs that were undercharged to the FEHBP.

C. CASH MANAGEMENT

Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations, except for the findings pertaining to cash management noted in the “Miscellaneous Health Benefit Payments and Credits” section.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Experience-Rated Audits Group

████████████████████, Auditor-In-Charge

██████████, Auditor

██████████, Auditor

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

████████████████████, Senior Team Leader

III. SCHEDULES

BLUECROSS BLUESHIELD OF ALABAMA
BIRMINGHAM, ALABAMA

CONTRACT CHARGES

CONTRACT CHARGES	2005	2006	2007	2008	2009	TOTAL
A. HEALTH BENEFIT CHARGES*						
PLAN CODE 010	\$147,879,626	\$161,452,428	\$172,162,760	\$178,209,342	\$191,992,348	\$851,696,504
MISCELLANEOUS PAYMENTS	12,880	215,221	1,081,930	1,050,323	1,340,739	3,701,093
PLAN CODE 510	174,101,269	186,965,536	202,300,298	211,163,036	217,470,546	992,000,685
MISCELLANEOUS PAYMENTS	0	0	0	0	0	0
TOTAL	\$321,993,775	\$348,633,185	\$375,544,988	\$390,422,701	\$410,803,633	\$1,847,398,282
B. ADMINISTRATIVE EXPENSES						
PLAN CODE 10	\$12,591,153	\$13,782,032	\$13,921,354	\$15,242,934	\$13,883,497	\$69,420,970
PRIOR PERIOD ADJUSTMENTS	(451,217)	(265,201)	0	0	0	(716,418)
TOTAL	\$12,139,936	\$13,516,831	\$13,921,354	\$15,242,934	\$13,883,497	\$68,704,552
TOTAL CONTRACT CHARGES	\$334,133,711	\$362,150,016	\$389,466,342	\$405,665,635	\$424,687,130	\$1,916,102,834

* We did not review claim payments on this audit.

SCHEDULE B

**BLUE CROSS BLUESHIELD OF ALABAMA
BIRMINGHAM, ALABAMA**

QUESTIONED CHARGES

AUDIT FINDINGS	2005	2006	2007	2008	2009	2010	2011	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS								
1. ██████████ Drug Rebates*	\$64,278	\$103,443	\$116,188	\$120,073	\$126,170	\$43,144	\$1,699	\$574,995
2. Health Benefit Refunds and Recoveries*	172	5,039	416	1,101	1,022	182	63	7,995
3. Hospital Settlements*	2,546	791	1,257	2,053	232	751	0	7,630
TOTAL HEALTH BENEFIT CHARGES	\$66,996	\$109,273	\$117,861	\$123,227	\$127,424	\$44,077	\$1,762	\$590,620
B. ADMINISTRATIVE EXPENSES								
1. BlueCross BlueShield Association Dues*	\$0	\$6,498	(\$623)	\$0	\$0	\$0	\$1,252	\$7,127
2. Pension Costs	(75,856)	0	0	0	0	0	0	(75,856)
TOTAL ADMINISTRATIVE EXPENSES	(\$75,856)	\$6,498	(\$623)	\$0	\$0	\$0	\$1,252	(\$68,729)
C. CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	(\$8,860)	\$115,771	\$117,238	\$123,227	\$127,424	\$44,077	\$3,014	\$521,891

* These audit findings include lost investment income.

APPENDIX A

June 30, 2011



██████████ Group Chief
Experience-Rated Audits Group
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, Room 6400
Washington, DC 20415-1100

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

**Reference: OPM DRAFT AUDIT REPORT RESPONSE
Blue Cross and Blue Shield of Alabama
Audit Report Number 1A-10-09-11-018
(Dated May 19, 2011 and Received May 19, 2011)**

Dear ██████████:

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 Blue Cross Blue Shield of Alabama. Our comments concerning the findings in the report are as follows:

A. HEALTH BENEFIT CHARGES

1) Miscellaneous Payments and Credits

a) ██████████ Drug Rebates **\$574,995**

The Plan agrees with this finding. The Plan wired \$574,995 into the Blue Cross Blue Shield (BCBSA) investment account on February 10, 2011. BCBSA returned the funds to OPM on February 17, 2011.

In response to this finding and based on the directions provided in the November 30, 2010 Refund Audit Alert and the March 1, 2011 FEPDO Refund Bulletin, the Plan implemented a corrective action plan to ensure that this issue does not reoccur. As part of the Plan's corrective action plan, formal training was provided to Plan staff to enhance communication on drug rebate accounting, so that the

proper credit can be given to FEP in a timely manner. Lastly, the Plan has implemented a Certification process that must be completed each month certifying that FEP has been properly credited for such rebate refunds.

b) Financial Recoveries

\$8,551

The Plan agrees with this finding. However, the Plan would like to point out that thirty-one of the thirty-three subrogation recoveries identified as not returned to the Program in a timely manner were previously identified as a finding in the Plan's 2009 IPA audit and all funds were returned to the Program in 2009, which was prior to the OPM Audit Notification Letter. As a result of the IPA Audit finding, the Plan calculated lost investment income of \$556 and wired the funds to BCBSA on October 2009. BCBSA wired the funds to OPM on October 23, 2009. Therefore, the FEHBP is due LII of \$3,201, which represents the OIG calculated LII of \$3,757 less the Plan's previously returned LII of \$556.

The Plan also wired \$3,201 for the lost investment income related to the untimely return of subrogation refunds to BCBSA on June 16, 2011 and BCBSA returned the funds to the Program on June 28, 2011.

The Plan has implemented a corrective action Plan to enhance its internal controls to ensure the timely return of FEP's share of subrogation refunds to the Program. The enhanced controls identify and prioritize FEP recovery items to ensure that FEP refunds are deposited into the FEP Investment Account and returned to the Program in a timely manner.

c) Hospital Settlements

\$7,630

The Plan agrees with this finding. Based on a review of the documentation provided for the 2010 OPM audit, the Plan determined that hospital settlements were not timely deposited into the FEP working capital account within 30 days, which resulted in lost investment income to FEP. The Plan wired \$7,630 to the BCBSA investment account on June 16, 2011 and BCBSA returned the funds to the Program on June 28, 2011.

The Plan has implemented a corrective action Plan to enhance its procedures to work more closely with the Director's Office to ensure that SPI's are approved timely.

[REDACTED]
June 30, 2011

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B. ADMINISTRATIVE EXPENSES

1. BCBSA Dues

\$5,875

The Plan agrees with this finding. The Plan agrees that an incorrect percentage was used to calculate Blue Cross Blue Shield Association dues allocable to FEP for 2006 and 2007. The effect of the use of the incorrect percentage to FEP was an over allocation of \$6,498 for 2006 and an under allocation of \$623 for 2007 for an overall net overcharge of \$5,875. The Plan will review and revise its procedures to ensure that the correct percentage allocations are used when allocating BCBSA dues to FEP.

The Plan submitted Prior Period Adjustment Forms to the FEPDO for the 2006 overcharge and the 2007 undercharge to FEP for BCBSA Dues. In addition, the Plan submitted a Special Plan Invoice in the amount of \$1,252 for the lost investment income related to the 2006 overcharge and wired funds to BCBSA for the 2006 overcharge and lost investment income related thereto. BCBSA wired the funds to the Program on June 28, 2011.

2. Pension Costs

(\$75,856)

The Plan agrees with this finding. The Plan stated that an incorrect amount was used for the funded defined benefit pension expense used to determine allowable costs to FEP, which resulted in an undercharge to FEP. The Plan has revised its procedures to ensure that the correct funded amount is used in the calculation to determine the allowable pension expense chargeable to FEP. The Plan submitted a Prior Period Adjustment Form to the FEPDO for the 2005 undercharge to FEP for Pension costs.

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]
fo
Executive Director
Program Integrity
[REDACTED]