



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

Final Audit Report

**AUDIT OF
GLOBAL OMNIBUS BUDGET RECONCILIATION
ACT OF 1990 CLAIMS FOR
BLUECROSS AND BLUESHIELD PLANS**

Report Number 1A-99-00-15-047

June 17, 2016

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EXECUTIVE SUMMARY

Audit of Global Omnibus Budget Reconciliation Act of 1990 Claims

Report No. 1A-99-00-15-047

June 17, 2016

Why Did We Conduct The Audit?

The objectives of our audit were to determine whether the Blue Cross and Blue Shield (BCBS) plans charged costs to the Federal Employees Health Benefits Program (FEHBP) and provided services to the FEHBP members in accordance with the terms of the contract with the U.S. Office of Personnel Management. Specifically, our objective was to determine whether the BCBS plans complied with contract provisions relative to claims paid in accordance with the Omnibus Budget Reconciliation Act of 1990 (OBRA 90).

What Did We Audit?

The Office of the Inspector General has completed a limited scope performance audit of the FEHBP operations at all BCBS plans. The audit covered claim payments from January 1, 2012 through April 30, 2015, as reported in the Blue Cross and Blue Shield Association's Government-wide Service Benefit Plan Annual Accounting Statements. Specifically, we identified claims from this period that were subject or possibly subject to the OBRA 90 pricing guidelines.



Michael R. Esser
*Assistant Inspector General
for Audits*

What Did We Find?

Our audit identified several erroneous claim payments that we believe are indicative of minor systemic control problems. Although the Association generally has adequate procedures in place to properly price and pay OBRA 90 claims, we identified two system enhancements that would result in a cost savings to the FEHBP.

However, we conclude that the overall processing of FEHBP OBRA 90 claims by the BCBS plans appear to be in compliance with the terms of its contract with the U.S Office of Personnel Management and industry standards.

The report questions \$9,937,273 in health benefit charges.

ABBREVIATIONS

Association	Blue Cross Blue Shield Association
BCBS	Blue Cross Blue Shield
CMS	Center for Medicare and Medicaid Services
DO	Director’s Office
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
FEP	Federal Employee Program
FEP OC	Federal Employee Program Operations Center
OBRA 90	Omnibus Budget Reconciliation Act of 1990
OPM	U. S. Office of Personnel Management
Plan(s)	Blue Cross and Blue Shield Plan(s)

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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 all Blue Cross and Blue Shield (BCBS) plans. The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as authorized by the Inspector General Act of 1978, as amended.

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

The Blue Cross Blue Shield Association (Association), on behalf of participating BCBS plans, has entered into a Government-wide Service Benefit Plan contract (CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BCBS plans throughout the United States to process the health benefit claims of its federal subscribers. There are 64 local BCBS plans participating in the FEHBP.

The Association has established a Federal Employee Program (FEP¹) Director's Office (DO) in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP DO coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

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

¹ Throughout this report, when we refer to "FEP", we are referring to the Service Benefit Plan lines of business at the Plan(s). 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 each BCBS plan is responsible for establishing and maintaining a system of internal controls.

Findings from our previous global OBRA 90 audit of all BCBS plans (Report No. 1A-99-00-09-046, dated July 19, 2010) for claims reimbursed from January 1, 2006 through May 31, 2009, have been resolved.

Our sample selections, instructions, and preliminary audit results of the potential OBRA 90 errors were presented to the Association in a draft report, dated June 23, 2015. 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. Also, additional documentation provided by the Association and BCBS plans on various dates through February 23, 2016 was considered in preparing our final report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our audit were to determine whether the BCBS plans charged costs to the FEHBP and provided services to the FEHBP members in accordance with the terms of the contract. Specifically, our objective was to determine whether the plans complied with contract provisions relative to claims paid in accordance with Omnibus Budget Reconciliation Act of 1990 (OBRA 90) pricing guidelines.

Scope

Generally, OBRA 90 limits the benefit payments for certain inpatient hospital services provided to annuitants age 65 or older who are not covered under Medicare Part A. The FEHBP fee-for-service plans are required to limit the claim payments to the amount equivalent to the Medicare Part A payment.

The audit covered health benefit payments from January 1, 2012 through April 30, 2015, as reported in the Blue Cross and Blue Shield Association’s Government-wide Service Benefit Plan FEP Annual Accounting Statements. To test each BCBS plan’s compliance with the FEHBP health benefit provisions relative to claims that are subject to OBRA 90 pricing guidelines, we performed a computer search on our claims data warehouse to identify all BCBS claims that were subject or potentially subject to OBRA 90 pricing guidelines from January 1, 2012 through April 30, 2015. This universe is comprised of claims for two distinct categories. The first category, “OBRA 90,” consists of claims that were priced in accordance with OBRA 90 pricing guidelines. From this category, we judgmentally selected for review all claims with amounts paid of \$20,000 or more. The second category, “Possible OBRA 90,” consists of claims that appear should have priced in accordance with OBRA 90 pricing guidelines, but the Plans’ local pricing was applied instead. From this category, we judgmentally selected for review all claims with amounts paid of \$10,000 or more. See Exhibit I for a summary of our OBRA 90 claims universe and sample selections. We did not project the results of our review to the universe of potentially overpaid claims.

Exhibit I – Summary of OBRA 90 Claims Universe and Sample Selections

Claim Category	Universe Totals in Scope		Sample Selection Totals	
	Claims	Amount Paid	Claims	Amount Paid
1. OBRA 90			3,232	\$120,254,172
2. Possible OBRA 90			2,359	\$64,284,596
Totals			5,591	\$184,538,768

Methodology

The claims selected for review were submitted to each BCBS plan for their review and response. We then conducted a limited review of the plans' "paid correctly" responses and an expanded review of the plans' "paid incorrectly" responses. Specifically, we verified supporting documentation and the accuracy and completeness of the plans' responses, determined if the claims were paid correctly, and/or calculated the appropriate questioned amounts for the claim payment errors. Additionally, we verified on a limited test basis if the BCBS plans had initiated recovery efforts, adjusted or voided the claims, and/or completed the recovery process by the audit request due date (i.e., July 24, 2015) for the claim payment errors in our sample.

The determination of the questioned amount is based on the FEHBP contract, the 2012 through 2015 Service Benefit Plan brochures, the Association's FEP Procedures Administrative Manual and OBRA 90 pricing guidelines.

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 did not consider each BCBS plan's internal control structure in planning and conducting our auditing procedures. Our audit approach consisted mainly of substantive tests of transactions and not tests of controls. Therefore, we do not express an opinion on each BCBS plan's system of internal controls taken as a whole.

We also conducted tests to determine whether the BCBS plans had complied with the contract and the laws and regulations governing the FEHBP as they relate to claims paid in accordance with OBRA 90 pricing guidelines. The results of our tests indicate that, with respect to the items tested, the BCBS plans did not fully comply with the provisions of the contract relative to the pricing and paying of OBRA 90 claims. Exceptions noted are explained in detail in the "Audit Findings and Recommendations" section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that the BCBS plans had not complied, in all material respects, with these provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP DO, the FEP OC, and the BCBS plans. Through audits and a reconciliation process, we have verified the reliability of the BCBS claims data in our data warehouse, which was used to identify the universe of OBRA 90 or potential OBRA 90 claims. The BCBS claims data is

provided to us on a monthly basis by the FEP OC, and after a series of internal steps, uploaded into our data warehouse. However, due to time constraints, we did not verify the reliability of the data generated by the BCBS plans' local claims systems. 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.

Audit fieldwork was performed at our offices in Washington, D.C.; Cranberry Township, Pennsylvania; and Jacksonville, Florida through February 2016.

III. AUDIT FINDING AND RECOMMENDATIONS

Global Omnibus Budget Reconciliation Act of 1990

\$9,937,273

As mentioned in the scope section above, we selected for review high dollar claims that were subject to or potentially subject to the OBRA 90 pricing guidelines to determine whether the BCBS plans complied with contract provisions relative to OBRA 90 pricing guidelines. We consider these specific claim payments to be at high risk for overpayments based on previous audit experiences.

Our review determined that the BCBS plans overpaid 686 of these claims by \$10,792,073 and underpaid 143 of these claims by \$854,800. In total, the BCBS plans incorrectly paid 829 claims, resulting in net overcharges of \$9,937,273 to the FEHBP. See Exhibit II for a summary of questioned costs.

Exhibit II – Summary of Questioned Costs

Claim Category	Overpaid Totals		Underpaid Totals		Net Questioned Totals	
	Claims	Amount Paid	Claims	Amount Paid	Claims	Amount Paid
1. OBRA 90	429	\$6,565,331	100	(\$516,163)	529	\$6,049,168
2. Possible OBRA 90	257	\$4,226,742	43	(\$338,637)	300	\$3,888,105
Totals	686	\$10,792,073	143	(\$854,800)	829	\$9,937,273

These 829 claim payment errors are comprised of the following:

- 250 claims were questioned due to manual processing errors, such as applying incorrect Medicare DRG coding or allowances, applying incorrect patient transfer codes, and using incorrect billed amounts, resulting in net overcharges of \$3,943,777 to the FEHBP.
- 418 claims were priced with outdated Medicare effective rates, resulting in net overcharges of \$2,911,375 to the FEBHP. At the time these claims were priced, the FEP Express system had not been updated with the most recent Center for Medicare and Medicaid Services (CMS) pricing rates. Although the FEP Express system is updated annually with the CMS effective rates, the system is not updated when CMS releases monthly or quarterly pricing changes, which in this case would have resulted in savings to the FEHBP.

In general, OBRA 90 claim payments should be limited to the amount equivalent to the Medicare Part A allowances. CMS releases various pricing adjustments quarterly, and these adjustments decrease Medicare inpatient hospital payment allowances, which ultimately results in payment savings. The FEP OC updates the Medicare inpatient hospital payment

rates yearly in the FEP Express system. However, updating the FEP Express system with quarterly releases would result in an ongoing savings to the FEHBP year-after-year.

- 81 claims were questioned due to FEP Express system processing errors, resulting in net overcharges of \$2,225,093 to the FEHBP. In most instances, the claims bypassed OBRA 90 pricing edits in the FEP Express system due to the fact that [REDACTED] [REDACTED] Our review determined that if the FEP Express system had identified that an [REDACTED] was on file during the processing of these claims, the OBRA 90 allowance would have been properly applied.
- 22 claims were questioned due to provider billing errors, such as providing an incorrect Medicare provider number or incorrect claim information, resulting in net overcharges of \$279,386 to the FEHBP.
- 18 claims were questioned due to the BCBS plans incorrectly pricing claims that were not subject to OBRA 90 pricing guidelines, resulting in net overcharges of \$219,651 to the FEHBP. In these instances the local plans' pricing allowances were applied; however, the incorrect pricing amount, discount, or pricing method was used during the processing of the claims.
- 24 claims were questioned due to the BCBS plans not applying or incorrectly applying Medicare B payments, resulting in net overcharges of \$203,258 to the FEHBP.
- 16 claims were questioned due to local system processing errors, resulting in net overcharges of \$154,733 to the FEHBP. In most instances, these errors were due to changes in the BCBS plans' local system or because the plans' local system did not properly accept the OBRA 90 pricing from the FEP Express system.

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. . . . [and] on request, document and make available accounting support for the cost to justify that the cost is actual, reasonable and necessary; and (ii) determine the cost in accordance with: (A) the terms of this contract" Part II, section 2.3(g) states, "If the Carrier [or OPM] determines that a Member's claim has been paid in error for any reason . . . the Carrier shall make a prompt and diligent effort to recover the erroneous payment"

Contract CS 1039, Part II, section 2.6 states, "(a) The Carrier shall coordinate the payment of benefits under this contract with the payment of benefits under Medicare . . . (b) The Carrier

shall not pay benefits under this contract until it has determined whether it is the primary carrier . . .”

Association Response:

In its response to the draft report the Association stated that \$8,819,863 in overpayments were made and states,

- ***“For OBRA ’90 priced claims, when the claims were repriced using the FEPOC Mainframe OBRA ’90 pricer, the repriced claims resulted in a savings to the FEP Program of \$2,168,538***
- ***For OBRA ’90 priced claims, when the claims were re-priced using the FEPOC Mainframe OBRA ’90 pricer, overpayments totaling \$3,711,726 were identified.***
- ***For Possible OBRA ’90 claims, when the claims were reviewed by Plans and/or repriced with the Mainframe OBRA ’90 pricer, overpayments totaling \$2,939,599 were identified. The overpayments were the result of manual processor errors, billing errors or other miscellaneous reasons.”***

The Association also states, ***“Where possible, Plans have initiated recovery as required by CS 1039, Section 2.3 (g)(l). Any benefit payments the Plans are unable to recover and where due diligence is demonstrated are allowable charges to the Program. In addition, as good faith erroneous payments, lost investment income does not apply.”***

Regarding corrective actions, the Association states, ***“BCBSA is evaluating the Plans responses to determine any additional corrective actions that can be taken to enhance OBRA ’90 processing. We will provide those recommendations to the Contracting Office once completed.”***

OIG Comments:

Based on the Association’s response and documentation provided by the BCBS plans, we determined that the BCBS plans acknowledge that \$9,937,273 in claim net overpayments were made since the start of our audit. Although the Association only acknowledges \$8,819,863 in net overcharges in its written response, the BCBS plans’ documentation supports concurrence with \$9,937,273. If claim overpayments were identified by the BCBS plans before our audit notification date (i.e., June 2, 2015) and adjusted or voided by the draft report response due date (i.e., July 24, 2015), we did not consider these as claim payment errors in this final audit report.

Acknowledged Claim Payment Overpayments

The \$9,937,273 of acknowledged claim overpayments is comprised of the following:

- \$9,018,626 represents claim net overpayments for which the BCBS plans have committed to pursue recovery².
- \$918,647 represents claim net overpayments for which the BCBS plans did not initiate recovery because a) they believe they were restricted by contract limitations or b) that recovery efforts had been exhausted. However, we continue to question these costs because the BCBS Plans are required by contract CS 1039 to attempt recovery regardless of provider contract limitations, or because they have not provided us with documentation supporting that all recovery efforts have been exhausted.

Recommendation 1

We recommend that the contracting officer disallow \$10,792,073 for claim overpayments and verify that the BCBS plans return all amounts recovered to the FEHBP.

Recommendation 2

We recommend that the contracting officer allow the BCBS plans to charge the FEHBP \$854,800 if additional payments are made to the providers to correct the underpayments.

Recommendation 3

We recommend that the contracting officer require the Association to enhance the FEP Express system by adding an edit that automatically defers claims where [REDACTED] when being automatically priced as OBRA 90. If determined cost effective, the contracting officer should ensure the Association implements an automated process to utilize the Medicare provider number files issued by CMS.

Recommendation 4

Due to the ongoing savings identified year after year with the FEP OC using monthly and/or quarterly CMS pricing releases, we recommend that the contracting officer require the Association to perform a risk analysis to determine if it is cost effective to implement a process to include CMS pricing updates in the FEP Express system at the time the updates are released.

² Although the Association acknowledges that there were \$9,018,626 in claim payment errors, it contends that \$678,956 of this amount should not be labeled as “questioned” because the BCBS Plans initiated recovery efforts before they received our claims sample. However, Contract CS 1039 states that claims should be reported as questioned charges unless the plans initiated recovery prior to receiving notification of the audit. Recovery efforts for all of these claim overpayments began after the notification letter was issued; therefore, we continue to label the entire \$9,018,626 as questioned costs.

Recommendation 5

We recommend that the contracting officer require the Association to provide an analysis of corrective actions, as stated in the response to our draft report, to the contracting office and implement the necessary procedures or system enhancements based on this review.

IV. MAJOR CONTRIBUTORS TO THIS REPORT

Information Systems Audits Group

██████████, Lead Auditor

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**BlueCross BlueShield
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APPENDIX

August 24, 2015

[REDACTED]
Group Chief
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Office of the Inspector General
U.S. Office of Personnel Management
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Washington, D.C. 20415

**Reference: OPM DRAFT AUDIT REPORT
Global OBRA '90 & Possible OBRA '90
Audit Report 1A-99-00-15-047**

Dear [REDACTED]:

This is in response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report concerning the Global OBRA '90 and Possible OBRA '90 Claim Payments Audit of the FEP Blue Cross Blue Shield Plans. Our comments concerning the recommendations in the report are as follows:

Recommendation 1

We recommend that the contracting officer disallow the claims overcharges (to be determined and included in the final report) and have the BCBS Plans return all amounts recovered to the FEHBP.

BCBSA Response

After reviewing 3,232 claims totaling \$120,254,172 that were subject to OBRA '90 pricing guidelines and 1,624 claims totaling \$49,707,302 that were possibly subject to OBRA '90 pricing, BCBS Plans determined the following:

- For OBRA '90 priced claims, when the claims were repriced using the FEPOC Mainframe OBRA '90 pricer, the repriced claims resulted in a savings to the FEP Program of \$2,168,538

- For OBRA '90 priced claims, when the claims were re-priced using the FEPOC Mainframe OBRA '90 pricer, overpayments totaling \$3,711,726 were identified.
- For Possible OBRA '90 claims, when the claims were reviewed by Plans and/or repriced with the Mainframe OBRA '90 pricer, overpayments totaling \$2,939,599 were identified. The overpayments were the result of manual processor errors, billing errors or other miscellaneous reasons.

Where possible, Plans have initiated recovery as required by CS 1039, Section 2.3 (g)(1). Any benefit payments the Plans are unable to recover and where due diligence is demonstrated are allowable charges to the Program. In addition, as good faith erroneous payments, lost investment income does not apply.

Recommendation 2

Although the Association has developed a corrective action plan to reduce OBRA 90 findings, we recommend that the contracting officer instruct the Association to ensure that the BCBS plans are following the corrective action plan. If the Association identifies additional correction actions based on our audit review, provide the additional corrective actions as part of the Association's response to the draft report.

BCBSA Response

BCBSA is evaluating the Plans responses to determine any additional corrective actions that can be taken to enhance OBRA '90 processing. We will provide those recommendations to the Contracting Office once completed.

We appreciate the opportunity to provide our response to the finding and request that our comments be included in their entirety as part of the Final Audit Report.

Sincerely,


Managing Director, Program Assurance
Federal Employee Program



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