

ER-B-99-03

AUDIT
REPORT

WESTINGHOUSE SAVANNAH
RIVER COMPANY'S HEALTH
BENEFIT PLAN



JANUARY 1999

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES



DEPARTMENT OF ENERGY

Washington, DC 20585

January 25, 1999

MEMORANDUM FOR THE MANAGER, SAVANNAH RIVER OPERATIONS OFFICE

FROM: Terry L. Brendlinger, Manager
Eastern Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Westinghouse Savannah River Company's Health Benefit Plan"

BACKGROUND

Westinghouse Savannah River Company (Westinghouse) manages and operates the Savannah River Site, located in Aiken, South Carolina, for the U.S. Department of Energy (Department). Westinghouse was self-insured for health benefits and contracted with Aetna Insurance to administer the plan (service payments to providers) from Calendar Year (CY) 1989 through 1996. Westinghouse's administrative service contract with Aetna Insurance expired on December 31, 1996. Westinghouse chose Blue Cross/Blue Shield of South Carolina (BC/BS) to administer its health plan, effective January 1, 1997.

After the contract was awarded to BC/BS, 47 health care providers in the Aiken area submitted their resignations as preferred providers for BC/BS. The health care providers complained that the fees received from BC/BS were less than they were previously paid through Aetna Insurance. As a result, Westinghouse instructed BC/BS to negotiate a modified fee schedule for all the health care providers in the Aiken area.

The audit objective was to determine whether the health benefit costs incurred by Westinghouse under the BC/BS contract were necessary and reasonable.

RESULTS OF AUDIT

A portion of Westinghouse's 1997 and 1998 health benefit costs were unnecessary and unreasonable. Westinghouse instructed BC/BS to pay health care providers in the Aiken area at higher rates than BC/BS paid its other preferred providers in South Carolina. This condition existed because Westinghouse did not want its employees to be inconvenienced and it wanted to protect the Aiken Regional Medical Centers from financial difficulty. As a result of the higher rates paid to Aiken area health care providers, the Department will incur unnecessary and unreasonable costs of about \$1.7 million over a 3-year period. We recommended that the Manager, Savannah River Operations Office (1) recoup health benefit costs that are incurred under Westinghouse's contract with BC/BS and determined to be unallowable by the Contracting Officer, and (2) limit future reimbursements for health benefits to the standard BC/BS rates.

MANAGEMENT REACTION

Management did not concur with the finding or Recommendation 1. Management did not consider any of the health benefit costs paid by Westinghouse to be unnecessary or unreasonable. Management did concur with Recommendation 2, however, stating that reimbursements for health benefits will be limited to the standard BC/BS rates and agreements in South Carolina and Georgia beginning January 1, 2000.

WESTINGHOUSE SAVANNAH RIVER COMPANY'S HEALTH BENEFIT PLAN

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Overview

INTRODUCTION AND OBJECTIVE

Westinghouse manages and operates the Department's Savannah River Site, located near Aiken, South Carolina and Augusta, Georgia. Westinghouse was self-insured for health benefits and contracted with Aetna Insurance to administer the plan from CY 1989 through CY 1996. In early 1996, the Operations Office and Westinghouse agreed to solicit competitive bids for the administration of its health benefit plan in an effort to reduce overall costs.

Westinghouse chose BC/BS to administer its health plan, effective January 1, 1997. This selection was based on three factors: (1) the administrative fee charged by BC/BS was lower than other vendors; (2) the discount negotiated by BC/BS with the health care providers was higher than other vendors who responded; and (3) the number of health care providers in the Aiken/Augusta area within BC/BS's established health care network equaled or exceeded other vendors. Westinghouse estimated that the new contract reduced overall cost by \$8.5 million during CY 1997.

Westinghouse employees use the medical services of doctors and hospitals located in the Aiken/Augusta area which includes Aiken County, South Carolina and Richmond County, Georgia. There are 5 hospitals and over 700 health care providers which are BC/BS preferred providers in these 2 counties. In Richmond County, the BC/BS network contains 4 of the 5 hospitals and over 600 medical personnel.

After the contract was awarded, 47 health care providers in the Aiken area submitted their resignations as preferred providers for BC/BS. The health care providers complained that the fees received from BC/BS were less than they were previously paid through Aetna Insurance.

In December 1996, Westinghouse instructed BC/BS to negotiate a modified fee schedule for all the health care providers in the Aiken area. BC/BS negotiated a modified fee schedule for Westinghouse not to exceed Aetna's 1996 fee levels, declining over a 3-year period. The 1997 fees for all procedures were set at BC/BS 1996 levels plus 20 percent, not to exceed Aetna's 1996 payment level. The 1998 fees were set at BC/BS 1996 fee levels plus 15 percent. Finally, the 1999 fees were set at BC/BS 1996 levels plus 10 percent.

**CONCLUSIONS AND
OBSERVATIONS**

The audit objective was to determine whether the health benefit costs incurred by Westinghouse under the BC/BS contract were necessary and reasonable.

A portion of Westinghouse's 1997 and 1998 health benefit costs were unnecessary and unreasonable. Westinghouse instructed BC/BS to pay health care providers in the Aiken area at higher rates than BC/BS paid its other preferred providers in South Carolina. This condition existed because Westinghouse did not want its employees to be inconvenienced and it wanted to protect the Aiken Regional Medical Centers from financial difficulty. As a result of the higher rates paid to Aiken-area health care providers, the Department will incur, over a 3-year period, about \$1.7 million in health benefit costs that are unnecessary and unreasonable.

The audit identified an issue that management should consider when preparing its yearend assurance memorandum on internal controls.

(Signed)
Office of Inspector General

RATES PAID TO AIKEN-AREA HEALTH CARE PROVIDERS

Cost Increases Were Unnecessary and Unreasonable

Westinghouse authorized BC/BS to pay additional fees to Aiken-area health care providers that were neither necessary nor reasonable. The additional fees were unnecessary because all the medical services could have been obtained from BC/BS health care providers at preferred rates. Other health care providers in the BC/BS preferred provider network within the service area were able to provide all of the specialized types of medical services that the 47 resigning health care providers could have provided. The withdrawal of the 47 health care providers would not have prevented Westinghouse employees from obtaining needed medical services within the service area.

The additional costs were unreasonable because they exceeded the rates that BC/BS paid other health care providers in the area. Westinghouse selected BC/BS as its health care administrator partly based on its expertise at establishing reasonable compensation rates for health care providers. BC/BS defined reasonable compensation for the health care providers in its preferred provider network in South Carolina. All health care providers in the BC/BS preferred provider network, except for the 47 who submitted their resignations, agreed to accept those rates as reasonable compensation for their services.

Westinghouse Did Not Want Its Employees to be Inconvenienced

Westinghouse agreed to pay higher rates to Aiken-area health care providers because it did not want its employees to pay more for health care providers' services, and it did not want employees to spend additional time away from work while traveling outside Aiken for medical care.

Westinghouse's Benefits Administration Division was concerned that if enough health care providers resigned from the BC/BS preferred provider network, some specialties might not be practiced by BC/BS preferred providers within the service area. That could cause some employees to use specialists outside the network, who might charge the employees amounts that exceed BC/BS rates. If so, the employees might be required to pay the health care providers for the difference between the BC/BS rate and the billed amount. However, the 16 specialties practiced by the 47 health care providers who submitted their resignations were readily available in the Aiken/Augusta area. All of the specialties were practiced by BC/BS preferred health care providers in the Augusta area. Also, seven of the specialties were practiced by other BC/BS preferred health care providers in the Aiken area.

Westinghouse's Benefits Administration Division was also concerned that its employees might spend more time away from work if they traveled to Augusta for medical care. However, the difference in commuting time is negligible. For example, it takes about 27 minutes to commute from the A area of the Savannah River Site to the Aiken Regional Medical Centers. It takes only 3 minutes more to commute to a BC/BS preferred provider hospital in Augusta, Georgia. Nevertheless, several Aiken employees' spouses and family members would have to travel about 20 extra miles to and from Augusta for medical care.

Westinghouse Was Concerned About the Aiken Regional Medical Centers

In addition to the concern for employees, Westinghouse's Benefits Administration Division was also concerned about the financial viability of the Aiken Regional Medical Centers. If a significant number of the physicians on the Aiken Regional Medical Centers' staff stopped participating in the BC/BS preferred provider network, more of Westinghouse's employees would be admitted for treatment to other preferred provider hospitals. This potential reduction in patient admissions might reduce Aiken Regional Medical Centers' revenues to the point where it was economically threatened.

However, of the 47 health care providers who submitted their resignations from the BC/BS preferred provider program, 7 were nurse anesthetists, 3 were pathologists, and 3 were anesthesiologists. These 13 health care providers did not admit patients; therefore, the Aiken Regional Medical Centers were not dependent upon them for admissions. The patients who would have been admitted by the remaining 34 health care providers who threatened to resign might still have been admitted to the Aiken Regional Medical Centers, regardless of the health care providers' status in the BC/BS plan. Therefore, we believe any potential impact on the Aiken Regional Medical Centers would have been minimal.

Department Will Incur \$1.7 Million in Unnecessary Costs

As a result of the higher rates paid to Aiken-area health care providers, the Department will incur, over a 3-year period, about \$1.7 million in health benefit costs that are unnecessary and unreasonable. Had Westinghouse not intervened, agreeing to pay higher rates to Aiken-area preferred providers, some Westinghouse employees and their families would have obtained medical care from out-of-network physicians or from preferred providers outside the Aiken area. In either of these scenarios, the cost of health benefits for those employees and their families could have increased. Our estimate of

unnecessary costs includes the additional cost to the Department assuming the worst-case scenario, wherein all patients of the health care providers who submitted their resignations would have obtained their medical services from non-network providers.

RECOMMENDATIONS

We recommend that the Manager, Savannah River Operations Office (1) recoup health benefit costs that are incurred under Westinghouse's contract with BC/BS and determined to be unallowable by the Contracting Officer, and (2) limit future reimbursements for health benefits to the standard BC/BS rates.

MANAGEMENT REACTION

Management did not concur with the finding or Recommendation 1. Management did not consider any of the health benefit costs paid by Westinghouse to be unnecessary or unreasonable. Management did concur with Recommendation 2, however, stating that reimbursements for health benefits would be limited to the standard BC/BS rates and agreements in South Carolina and Georgia beginning January 1, 2000.

Management stated that the reason it did not concur with the finding or Recommendation 1 was because neither the Department nor Westinghouse foresaw the consequences of BC/BS implementing its standard reimbursement schedule with the Aiken doctors. Management stated that the reasonableness of a cost under Westinghouse's contract is governed by Federal Acquisition Regulation (FAR) 31.201-3. The FAR provides, "a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business... What is reasonable depends upon a variety of considerations and circumstances, including... (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees and the public at large..." Conversely, for a cost to be unallowable, it must fail these tests. In this particular case, it is extremely difficult to conclude Westinghouse's actions were unreasonable and unallowable. After considering the state of morale of its employees, the adverse community impact which had already resulted from the downsizing activities of the site, the impending threat of more downsizing activities, the dollars the Department had spent to help mitigate the downsizing impacts on the local community through its Worker and Community Transition Program, and that Westinghouse had inadvertently created a situation in the entire community, Westinghouse decided to intervene.

The withdrawal of the doctors from the BC/BS network not only

affected the finances and morale of Westinghouse employees, it also adversely affected the employees (and their families) of all other local companies who were BC/BS subscribers (including even Savannah River Federal employees who were BC/BS subscribers.) The Westinghouse selection of BC/BS as its administrator eventually led to the Aiken Regional Medical Centers ceasing to be part of the BC/BS network for BC/BS members other than Westinghouse employees. What started as an effort by Westinghouse to save administrative processing costs for health benefits ultimately generated a situation impacting the entire local community.

Additionally, management stated that it could not find fault with the actions taken by Westinghouse to resolve problems related to the implementation of the BC/BS standard reimbursement schedule under the circumstances that existed at the time and the totality of the issues involved. Management stated that the morale of Westinghouse employees was at an all time low. The threat of layoffs in early 1997 was a high probability, and over 300 managerial positions were being competed among Westinghouse's employees and employees of the new companies involved in the contract. Also, Westinghouse had advised its employees that their health care contributions would increase effective January 1, 1997.

Finally, management stated that it would advise Westinghouse to formally engage the Department whenever actions are required in relation to unusual or precedent setting situations, or whenever the issue is likely to generate significant Congressional, employee, or public interest. Management stated that the BC/BS situation would clearly have met these criteria.

We recognize that Westinghouse did not expect 47 health care providers to submit their resignations from the BC/BS preferred provider network, and that employee morale was probably low at the time the BC/BS contract was awarded. Nevertheless, Westinghouse should not have intervened in the resolution process between BC/BS and its preferred providers. The resignation of 7 percent of the BC/BS providers in the Aiken/Augusta area would have affected only a small number of Westinghouse employees, many of whom would have chosen other preferred providers in the area. We consider the cost to be unreasonable because, in our opinion, a prudent person in a competitive business would not have intervened and directed BC/BS to meet the 47 providers' demands.

When Westinghouse selected BC/BS as its administrative service contractor, it should have known that the new contract would

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significantly reduce reimbursements to health care providers in the area. The BC/BS provided Westinghouse with its current standard rates during contract negotiations. Westinghouse should have determined that the BC/BS rates were significantly lower than those used under the Aetna Insurance contract.

We agree that Westinghouse should formally engage the Department whenever similar actions are determined to be required in the future. Had Westinghouse fully engaged the Department in the BC/BS case, we believe the Department would have prevented Westinghouse from intervening in the determination of preferred provider reimbursement rates.

We consider management's intention to limit future reimbursements for health benefit costs to the standard rates set by BC/BS to be responsive to Recommendation 2.

Appendix

SCOPE

The audit was performed from July 23, 1998, through October 2, 1998, at the Savannah River Site and the offices of BC/BS in Columbia, South Carolina.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed Federal regulations governing reasonable and allowable costs;
- Reviewed the Department's contract with Westinghouse;
- Visited BC/BS to determine health care providers' fees in the Aiken-area;
- Evaluated Westinghouse's payments for services provided by health care providers in the Aiken-area for CY 1997; and
- Determined the increases in health care providers' fees paid under the modified agreement in CY 1997 and estimated the amount of unnecessary costs to be paid under the modified agreement in CYs 1998 and 1999.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed Westinghouse's internal controls over the increased charges. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of the audit.

We relied on computer-generated data provided by BC/BS regarding fees for services provided by Aiken-area health care providers. We did not evaluate general and application controls for the BC/BS database. Our estimate of unnecessary costs is qualified, accordingly.

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