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**U.S. Office of Personnel Management  
Office of the Inspector General  
Office of Audits**

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# **Final Audit Report**

**Audit of Arkansas BlueCross BlueShield  
Little Rock, Arkansas**

**Report Number 1A-10-44-21-001  
December 6, 2021**

# Executive Summary

## Audit of Arkansas BlueCross BlueShield

Report No. 1A-10-44-21-001

December 6, 2021

### Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that Arkansas BlueCross BlueShield (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. 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, such as refunds, for contract year 2017 through June 30, 2020, and administrative expense charges for contract years 2015 through 2019, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract year 2017 through June 30, 2020, and the Plan's Fraud and Abuse Program activities for contract year 2019 through June 30, 2020.



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

### What did we find?

We questioned \$114,439 in health benefit refunds, net administrative expense overcharges, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association (Association) and/or Plan agreed with **all** of the questioned amounts. As part of our review, we verified that the Plan subsequently returned these questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- **Miscellaneous Health Benefit Payments and Credits** - We questioned \$75,469 for health benefit refunds that had not been returned to the FEHBP as of June 30, 2020, and \$1,547 for LII on health benefit refunds and medical drug rebates that were returned untimely to the FEHBP.
- **Administrative Expenses** - We questioned \$36,355 in net administrative expense overcharges and LII, consisting of \$29,519 in net overcharges for Association dues, \$4,001 in overcharges for unallocable natural account expenses, and \$2,835 for applicable LII on these questioned charges.
- **Cash Management** - We questioned interest income of \$1,068 that the Plan had not returned to the FEHBP as of June 30, 2020. This questioned interest income was earned on funds held in the Plan's dedicated Federal Employee Program investment account from December 2019 through April 2020.
- **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 Contract CS 1039 and FEHBP Carrier Letter 2017-13.

# Abbreviations

<b>Association</b>	<b>BlueCross BlueShield Association</b>
<b>BCBS</b>	<b>BlueCross and/or BlueShield</b>
<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>FAR</b>	<b>Federal Acquisition Regulations</b>
<b>FEHB</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>FEP</b>	<b>Federal Employee Program</b>
<b>FSTS</b>	<b>FEP Special Investigations Unit Tracking System</b>
<b>LII</b>	<b>Lost Investment Income</b>
<b>Memorandum</b>	<b>FEP Memorandum Number 19-730 FYI</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>Arkansas BlueCross BlueShield</b>
<b>SIU</b>	<b>Special Investigations Unit</b>
<b>SPI</b>	<b>Special Plan Invoice</b>

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## **Report Fraud, Waste, and Mismanagement**

# I. Background

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

The audit was performed by the U.S. 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 CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BCBS plans throughout the United States to process the health benefit claims of its Federal subscribers. The Plan is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

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

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by the Service Benefit Plan Administrative Services Corporation, an affiliate of CareFirst BCBS, located in 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 reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of FEHBP claims, and maintaining claims payment data.

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

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

We included this Plan in each of the following recent focused audits that covered a sample of BCBS plans:

- Final Report No. 1A-99-00-18-045 (dated August 7, 2019) for pension, post-retirement benefit, and Affordable Care Act costs for contract years 2014 through 2017;
- Final Report No. 1A-99-00-17-001 (dated March 14, 2018) for cash management activities and practices related to FEHBP funds for contract year 2015 through June 30, 2016; and
- Final Report No. 1A-99-00-16-010 (dated January 31, 2017) for aging FEP health benefit refunds as of June 30, 2015, and fraud recoveries and medical drug rebates for contract year 2012 through June 30, 2015.

All findings related to the Plan in 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 May 11, 2021; and were presented in detail in a draft report, dated June 1, 2021. The Association's comments offered in response to this 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 the contract and applicable laws and regulations concerning cash management in the FEHBP.

### Fraud and Abuse Program

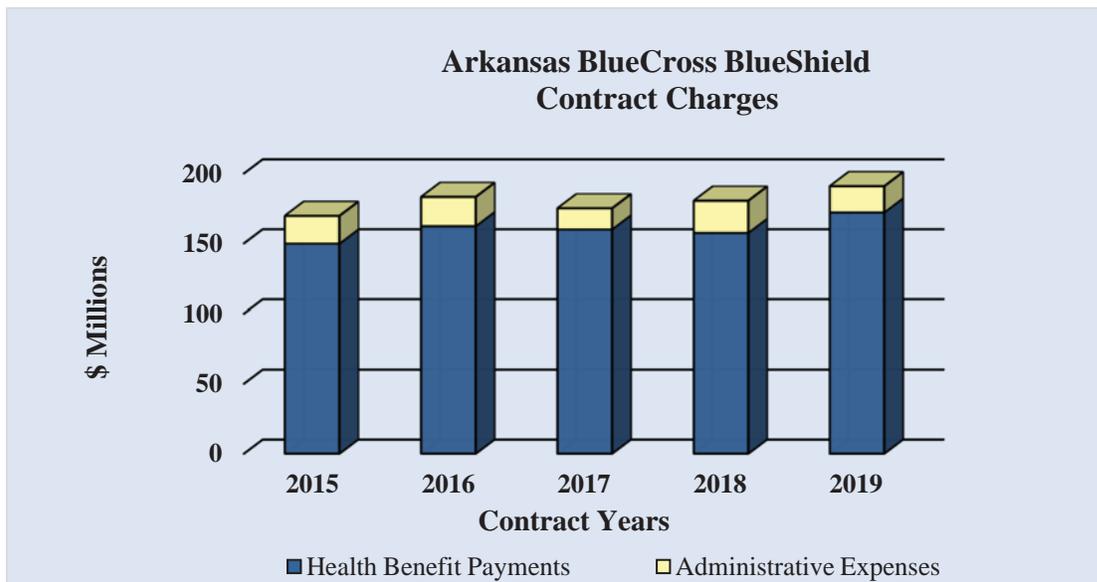
- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and Carrier Letter 2017-13.

## 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 pertaining to Plan codes 020 and 520 for contract years 2015 through 2019. During this period, the Plan

paid approximately \$802 million in FEHBP health benefit payments and charged the FEHBP approximately \$98 million in administrative expenses (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash receipt and provider offset refunds) for contract year 2017 through June 30, 2020, and administrative expense charges for contract years 2015 through 2019. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract year 2017 through June 30, 2020, and the Plan's Fraud and Abuse Program activities for contract year 2019 through June 30, 2020.

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 significant matters involving the Plan's internal control structure and 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 FEHBP contract and Federal 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 Plan and the FEP Director's Office. 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 fieldwork was performed remotely in the Jacksonville, Florida and Washington, D.C. areas from January 25, 2021, through May 11, 2021. Throughout the audit process, the Plan did a great job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We really appreciated the Plan's 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 contract year 2017 through June 30, 2020, we judgmentally selected and reviewed the following FEP items:

### *Health Benefit Refunds<sup>2</sup>*

- A high dollar sample of 51 FEP health benefit refunds returned via provider offsets, totaling \$4,197,498 (from a universe of 25,271 FEP refunds returned via provider offsets, totaling \$9,902,126, for the audit scope). Our sample included the 10 highest dollar provider offsets from each year of the audit scope, and 11 additional provider offsets from contract year 2018 that were judgmentally selected based on our nomenclature review of the Plan's universe.
- A high dollar sample of 80 FEP cash receipt health benefit refunds, totaling \$1,935,565 (from a universe of 7,093 FEP cash receipt refunds, totaling \$4,619,117, for the audit scope). Our sample included the 20 highest dollar cash receipt refunds from each year of the audit scope.
- A judgmental sample of 25 aging FEP refunds, totaling \$120,497, as of June 30, 2020 (from a universe of 222 aging FEP refunds, totaling \$145,063, as of June 30, 2020). Our

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<sup>2</sup> The Plan's FEP universes of cash receipt and provider offset refunds consisted of items such as solicited and/or unsolicited refunds (claim overpayment recoveries), subrogation recoveries, and/or fraud recoveries.

sample included all aging FEP refunds greater than \$1,000. The Plan's aging FEP refund schedules as of June 30, 2020, consisted of FEP refunds held by the Plan that had not been returned to the FEHBP as of June 30, 2020.

*Other Health Benefit Payments, Credits, and Recoveries*

- A judgmental sample of 20 special plan invoices (SPI), totaling \$372,222 in net FEP payments (from a universe of 175 SPI's, totaling \$4,083,315 in net FEP payments, for the audit scope). We judgmentally selected these SPI's based on our nomenclature review of high dollar invoice amounts. Specifically, we judgmentally selected five SPI's with high dollar payment and/or credit amounts from each year in the audit scope (including all SPI's for medical drug rebates). SPI's are used by the Plan to process items such as miscellaneous health benefit payment and credit transactions that do not include primary claim payments or checks.
- A judgmental sample of 18 FEP claim overpayment write-offs, totaling \$38,650 (from a universe of 732 FEP claim overpayment write-offs, totaling \$89,876, for the audit scope). For this sample, we selected all write-offs greater than \$500 from the audit scope. We reviewed these claim overpayment write-offs to determine if the Plan made diligent efforts to recover the applicable funds before writing these overpayments off.

We reviewed these samples to determine if health benefit refunds and recoveries, medical drug rebates, and miscellaneous credits 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 2015 through 2019. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement benefits; out-of-system adjustments; executive compensation limits; prior period adjustments; subcontracts; Association dues; lobbying; and Patient Protection and Affordable Care Act fees.<sup>3</sup> We used the FEHBP contract, the FAR, the

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<sup>3</sup> 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 contract years 2015 through 2019, the Plan allocated administrative expenses of \$92,186,467 (before adjustments) to the FEHBP from 278 cost centers that contained 100 natural accounts. From this universe, we selected a judgmental sample of 34 cost centers to review, which totaled \$57,476,888 in expenses allocated to the FEHBP. We also selected a judgmental sample of 33 natural accounts to review, which totaled \$23,567,630 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, our nomenclature review, and our 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.

FEHBAR, and/or the Affordable Care Act (Public Law 111-148) 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 letter of credit account drawdowns, working capital calculations, adjustments and/or balances, United States Treasury offsets, and interest income transactions for contract year 2017 through June 30, 2020, as well as the Plan's dedicated FEP investment account activity during the scope and balance as of June 30, 2020. As part of our testing, we selected and reviewed a judgmental sample of 45 letter of credit account drawdowns, totaling \$95,461,225 (from a universe of 456 letter of credit account drawdowns, totaling \$563,861,841, for contract year 2017 through June 30, 2020), for the purpose of determining if the Plan's drawdowns were appropriate and adequately supported. Our sample included the highest dollar drawdown amount from each month in the audit scope. We also selected three additional drawdown amounts based on our nomenclature review of the Plan's monthly cash management schedules. The sample results were not projected to the universe of letter of credit account drawdowns, since we did not use statistical sampling.

We also interviewed the Plan's Special Investigations Unit regarding the compliance of the [Fraud and Abuse 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 2017-13.

# III. Audit Findings and Recommendations

## A. Miscellaneous Health Benefit Payments and Credits

### 1. Health Benefit Refunds - Cash Receipts

**\$76,599**

Our audit determined that the Plan had not returned eight health benefit refunds, totaling \$75,469, to the FEHBP as of June 30, 2020. The Plan subsequently returned these questioned health benefit refunds to the FEHBP in July 2020 and January 2021, from 13 to 480 days late, after receiving our audit notification letter, and/or because of our audit. Additionally, the Plan untimely returned 15 health benefit refunds, totaling \$149,045, to the FEHBP during the audit scope. Since the Plan returned these 15 refunds to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. As a result, we are questioning \$76,599 for this audit finding, consisting of \$75,469 for the questioned health benefit refunds and \$1,130 for lost investment income (LII) on the health benefit refunds returned untimely to the FEHBP.

Contract CS 1039, Part II, Section 2.3 (i) states, "All health benefit refunds and recoveries, including erroneous payment 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."

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 . . . which is applicable to the period in which the amount becomes due, . . . 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."

**The Plan returned health benefit refunds of \$75,469 to the FEHBP from 13 to 480 days late, after our audit notification date, and/or because of our audit.**

For contract year 2017 through June 30, 2020, there were 7,093 FEP cash receipt health benefit refunds totaling \$4,619,117. From this universe, we selected and reviewed a high dollar sample of 80 cash receipt refunds, totaling \$1,935,565, to determine if the Plan timely returned these refunds to the FEHBP. Our sample included the 20 highest dollar cash receipt refunds for each year of the audit scope. We also reviewed the Plan's aging FEP refund schedules as of June 30, 2020, to identify potential untimely cash receipt refunds. These aging refund

schedules consisted of 222 FEP cash receipt refunds totaling \$145,063. From this universe, we selected and reviewed a judgmental sample of 25 aging FEP refunds totaling \$120,497. This sample included all aging FEP refunds greater than \$1,000.

Based on our review, we noted the following refund exceptions in our samples:

1. The Plan had not returned eight health benefit refunds, totaling \$75,469, to the FEHBP as of June 30, 2020. The Plan subsequently returned these refunds to the FEHBP on multiple dates in July 2020 and January 2021. We noted that these refunds were returned to the FEHBP from 13 to 480 days late, after receiving our audit notification letter (dated July 1, 2020), and/or because of our audit. Therefore, we are questioning these refunds as monetary findings as well as \$1,064 for LII on these refunds returned untimely to the FEHBP (as calculated by the OIG).

2. The Plan returned 15 health benefit refunds, totaling \$149,045, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these refunds into the dedicated FEP investment account from 2 to 11 days late. Since the Plan returned these refunds to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. We also verified that the Plan subsequently returned LII of \$66 to the FEHBP in November 2020 and April 2021, calculated on these refunds that were returned untimely to the FEHBP. However, since the Plan returned the LII to the FEHBP after our audit notification date, we are questioning this LII amount as a monetary finding.

In total, the Plan returned \$76,599 to the FEHBP for this audit finding, consisting of \$75,469 for the questioned health benefit refunds and \$1,130 (\$1,064 plus \$66) for the questioned LII on the health benefit refunds returned untimely to the FEHBP.

#### **Association/Plan Response:**

**The Plan agrees with the finding and recommendations. Regarding the procedural recommendation, the Association states, "The Plan has provided evidence that it has implemented the necessary procedures to ensure that health benefit refunds and recoveries are timely returned to the FEHBP. We will provide documentation to support that the recommendation has been implemented and is working as intended once the Final Report is issued."**

#### **OIG Comment:**

As part of our review, we verified that the Plan returned the questioned health benefit refunds of \$75,469 to the FEHBP in July 2020 and January 2021. We also verified that the Plan returned the questioned LII of \$1,130 to the FEHBP on multiple dates in November 2020 through April 2021.

**Recommendation 1:**

We recommend that the contracting officer require the Plan to return \$75,469 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan subsequently returned \$75,469 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

**Recommendation 2:**

We recommend that the contracting officer require the Plan to return \$1,130 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$1,130 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 3:**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that health benefit refunds and recoveries are timely returned to the FEHBP (i.e., deposited into the FEP investment account and returned to the letter of credit account via drawdown adjustment). The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

**2. Special Plan Invoices - Medical Drug Rebates \$417**

Our audit determined that the Plan untimely returned three SPI amounts for medical drug rebates, totaling \$60,646, to the FEHBP during the audit scope. Since the Plan returned these funds to the FEHBP during the audit scope and prior to receiving our audit notification, we did not question this principal amount as a monetary finding. However, we are questioning LII of \$417 for this audit finding, since these SPI amounts were deposited untimely into the Plan's dedicated FEP investment account. As a result, the Plan subsequently returned \$417 to the FEHBP for LII on these SPI amounts.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the dedicated FEP investment account within 30 days and returned to the FEHBP letter of credit account within 60 days after receipt by the Carrier. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

For contract year 2017 through June 30, 2020, there were 175 SPI's, totaling \$4,083,315 in net FEP payments, for miscellaneous health benefit payments and credits. From this universe, we selected and reviewed a judgmental sample of 20 SPI's, totaling \$372,222 in net FEP payments, for the purpose of determining if the Plan properly calculated, charged

and/or credited these SPI amounts to the FEHBP. We judgmentally selected these 20 SPI's based on our nomenclature review of high dollar invoice amounts. Specifically, for SPI pay codes related to miscellaneous health benefit payments and credits, we selected five SPI's with high dollar payment and/or credit amounts from each year in the audit scope.

Based on our review, we determined that the Plan untimely returned three SPI amounts, totaling \$60,646, to the FEHBP during the audit scope. These three SPI's were for medical drug rebates. We noted that the Plan deposited these medical drug rebates into the FEP investment account from 3 to 412 days late. Since the Plan returned these funds to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question the principal amount as a monetary finding. However, since these funds were deposited untimely into the FEP investment account, we calculated LII of \$417 on these medical drug rebates.

**Association/Plan Response:**

**The Plan agrees with the finding and recommendation.**

**OIG Comment:**

As part of our review, we verified that the Plan returned the questioned LII of \$417 to the FEHBP in April 2021.

**Recommendation 4:**

We recommend that the contracting office require the Plan to return \$417 to the FEHBP for the questioned LII on the SPI amounts (medical drug rebates) that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$417 to the FEHBP for the questioned LII, no further action is required for this amount.

## **B. Administrative Expenses**

The audit disclosed only minor findings pertaining to administrative expenses. Overall, we concluded that the Plan's administrative expenses charged to the FEHBP were actual, allowable, necessary, and reasonable expenses incurred in accordance with Contract CS 1039 and applicable Federal regulations, except as noted in the audit findings below for "BlueCross BlueShield Association Dues" and "Unallocable Natural Account Expenses."

### **1. BlueCross BlueShield Association Dues \$31,885**

Our audit determined that the Plan overcharged the FEHBP \$32,396 for Association dues in contract years 2017 and 2019, and undercharged the FEHBP \$2,877 for Association dues in contract years 2016 and 2018. As a result, we are questioning \$31,885 for this

audit finding, consisting of a net overcharge of \$29,519 for Association dues that were charged to the FEHBP in contract years 2016 through 2019 and \$2,366 for applicable LII on the overcharges.

FEP Memorandum Number 19-730 FYI (Memorandum), titled BCBSA Regular Member Plan Dues and Other Assessments: 2014-2019, dated January 15, 2019, provides guidance to the BCBS plans with respect to charging the FEHBP for Association dues.

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

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

To determine the reasonableness of the amounts charged to the FEHBP, we reviewed each year in the audit scope and recalculated the FEP's share of the Association dues in accordance with the methods in the Memorandum. Based on our review, we noted the following exceptions for contract years 2015 through 2019:

- The Plan overcharged the FEHBP \$32,396 for Association dues in contract years 2017 and 2019. The Plan returned these overcharges and applicable LII to the FEHBP on September 1, 2020, and September 15, 2020, respectively, but after our audit notification (dated July 1, 2020). As a result, we are questioning \$34,762 for these exceptions, consisting of \$32,396 for the Association dues overcharged to the FEHBP and \$2,366 for applicable LII on these overcharges. We reviewed and accepted the Plan's LII calculation.
- The Plan also overcharged the FEHBP \$6,138 for Association dues in contract year 2015. However, we are not questioning this exception for contract year 2015 because the Plan returned the overcharge and applicable LII to the FEHBP during the audit scope.
- In addition, the Plan undercharged the FEHBP \$2,877 for Association dues in contract years 2016 and 2018.

**The Plan overcharged the FEHBP a net of \$29,519 for Association dues in contract years 2016 through 2019.**

In total, the Plan subsequently returned \$31,885 to the FEHBP for this audit finding, consisting of a net of \$29,519 for Association dues that were overcharged to the FEHBP in contract years 2016 through 2019 (\$32,396 for dues overcharged to the FEHBP in contract years 2017 and 2019 less \$2,877 for dues undercharged to the FEHBP in contract years 2016 and 2018) and \$2,366 for applicable LII calculated on the overcharges.

**Association/Plan Response:**

**The Plan agrees with the finding and recommendations.**

**OIG Comment:**

We verified that the Plan returned \$34,762 to the FEHBP in September 2020, consisting of \$32,396 for the questioned overcharges in contract years 2017 and 2019 and \$2,366 for applicable LII on these overcharges. We also verified that the Plan submitted prior period and adjustments and charged the FEHBP \$2,877 for the questioned undercharges applicable to contract years 2016 and 2018.

**Recommendation 5:**

We recommend that the contracting officer disallow \$32,396 for the Association dues that were overcharged to the FEHBP in contract years 2017 and 2019. However, since we verified that the Plan subsequently returned \$32,396 to the FEHBP for these questioned Association dues, no further action is required for this amount.

**Recommendation 6:**

We recommend that the contracting officer require the Plan to return \$2,366 to the FEHBP for the questioned LII calculated on the Association dues that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned \$2,366 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 7:**

We recommend that the contracting officer allow the Plan to charge \$2,877 to the FEHBP for Association dues that were undercharged in contract years 2016 and 2018. However, since we verified that the Plan subsequently charged \$2,877 to the FEHBP for these questioned undercharges, no further action is required for this amount.

## 2. Unallocable Natural Account Expenses

**\$4,470**

The Plan charged unallocable natural account expenses of \$4,001 to the FEHBP for contract years 2015 and 2016. As a result, we are questioning \$4,470 for this audit finding, consisting of \$4,001 for the unallocable natural account charges and \$469 for LII on these questioned charges.

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 Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

For contract years 2015 through 2019, the Plan allocated administrative expenses of \$92,186,467 (before adjustments) to the FEHBP from 278 cost centers that contained 100 natural accounts. From this universe, we selected a judgmental sample of 34 cost centers to review, which totaled \$57,476,888 in expenses allocated to the FEHBP. We also selected a judgmental sample of 33 natural accounts to review, which totaled \$23,567,630 in expenses allocated to the FEHBP through the cost centers. We selected these cost centers and natural accounts based on high dollar amounts, our nomenclature review, and our trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness.

Based on our review, we determined that the Plan charged unallocable expenses of \$2,347 to the FEHBP from natural account "6575" (Transplant Network) during contract year 2015, due to a coding error. We also determined that the Plan inadvertently charged unallocable expenses of \$1,654 to the FEHBP from natural account "6881" (Outside Services) during contract year 2016. For each of these exceptions, the Plan allocated and charged administrative expenses to the FEHBP that did not benefit the FEHBP.

In total, the Plan subsequently returned \$4,470 to the FEHBP for this audit finding, consisting of \$4,001 (\$2,347 plus \$1,654) for the questioned unallocable natural account charges and \$469 for LII on these questioned charges (as calculated by the OIG).

**Association/Plan Response:**

**The Plan agrees with the finding and recommendations.**

**OIG Comment:**

We verified that the Plan returned \$4,470 to the FEHBP in March 2021, consisting of \$4,001 for the questioned natural account charges and \$469 for applicable LII on these questioned charges.

**Recommendation 8:**

We recommend that the contracting officer require the Plan to return \$4,001 to the FEHBP for the questioned unallocable natural account charges. However, since we verified that the Plan subsequently returned \$4,001 to the FEHBP for these questioned charges, no further action is required for this amount.

**Recommendation 9:**

We recommend that the contracting officer require the Plan to return \$469 to the FEHBP for the questioned LII calculated on the unallocable natural account charges. However, since we verified that the Plan subsequently returned \$469 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## **C. Cash Management**

The audit disclosed only one minor finding 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 concerning cash management in the FEHBP, except as noted in the audit finding below for "Interest Income."

### **1. Interest Income \$1,068**

Our audit determined that the Plan had not returned interest income of \$1,068 to the FEHBP as of June 30, 2020. This interest income was earned on funds held in the Plan's dedicated FEP investment account. The Plan subsequently returned this questioned interest income to the FEHBP on August 13, 2020, after our audit notification date.

48 CFR 1652.215-71 states, "(a) The Carrier shall invest and reinvest all FEHB funds on hand that are in excess of the funds needed to promptly discharge the obligations incurred under this contract. .... (b) All investment income earned on FEHB funds shall be credited to the Special Reserve on behalf of the FEHBP."

OPM's "Letter of Credit System Guidelines" (dated April 2018) state that "Excess . . . funds must be held in a separate interest-bearing account. The interest earned on these

funds must be credited to the FEHB Program, by reducing the amount of a draw, at least on a monthly basis and used by the Carrier to pay only FEHB Program expenses."

FEP Memorandum Number 18-667 FS, titled Change in Guidelines for Returning Interest Income to FEP, dated October 1, 2018, also provides guidance to the BCBS plans with respect to returning interest income earned on FEHBP funds to the LOCA, and requires all BCBS plans to return interest income earned to the FEHBP monthly.

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 . . . prior to audit notification."

**The Plan had not returned earned interest income of \$1,068 to the FEHBP as of June 30, 2020.**

For contract year 2017 through June 30, 2020, the Plan earned interest income of \$5,088 on FEHBP funds in the Plan's dedicated FEP investment account. The Plan returned most of this interest income to the FEHBP during the audit scope. However, after our audit notification (dated July 1, 2020), the Plan subsequently returned \$1,068 of this earned interest income to the FEHBP on August 13, 2020. Specifically, we noted that the Plan inadvertently had not returned the earned interest income to the FEHBP for the months of December 2019, January 2020, February 2020, March 2020, and April 2020. Since the Plan held this questioned interest income in the dedicated FEP investment account, LII is not applicable for this audit finding.

**Association/Plan Response:**

**The Plan agrees with the finding and recommendations. Regarding the procedural recommendation, the Association states, "The Plan has provided evidence that it has implemented the necessary procedures . . . We will provide documentation to support that the recommendation has been implemented and is working as intended once the Final Report is issued."**

**OIG Comment:**

As part of our review, we verified that the Plan returned the questioned interest income of \$1,068 to the FEHBP on August 13, 2020.

**Recommendation 10:**

We recommend that the contracting officer require the Plan to return \$1,068 to the FEHBP for the questioned interest income. However, since we verified that the Plan subsequently returned \$1,068 to the FEHBP for the questioned interest income, no further action is required for this amount.

**Recommendation 11:**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that earned interest income on FEHBP funds is timely returned to the FEHBP (i.e., returned monthly to the letter of credit account via drawdown adjustment). The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

**D. Fraud and Abuse Program**

**The Plan timely entered all of the fraud and abuse cases in our sample into the Association's FSTS.**

The audit disclosed no findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For contract year 2019 through June 30, 2020, the Plan opened eight fraud and abuse cases with potential FEP exposure. From this universe, we selected and reviewed all of these cases and determined if the Plan timely entered these fraud and abuse cases into the Association's FEP Special Investigations Unit Tracking

System (FSTS).<sup>4</sup> Based on our review, we determined that the Plan timely entered all of the fraud and abuse cases in our sample into the Association's FSTS. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in Contract CS 1039 and FEHBP Carrier Letter 2017-13.

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<sup>4</sup> FSTS is a multi-user, web-based FEP case-tracking database application and storage warehouse administered by the Association's FEP Special Investigations Unit (SIU). FSTS is used by the local BCBS plans' SIUs, the FEP Pharmacy Benefit Managers' SIUs, and the Association's FEP SIU to store, track and report potential fraud and abuse activities.

# V. Schedule A - Questioned Charges

## Arkansas BlueCross BlueShield

### Little Rock, Arkansas

#### Questioned Charges

Audit Findings	2015	2016	2017	2018	2019	2020	Total
<b>A. Miscellaneous Health Benefit Payments and Credits</b>							
1. Health Benefit Refunds – Cash Receipts	\$0	\$0	\$0	\$5	\$45,194	\$31,400	\$76,599
2. Special Plan Invoices – Medical Drug Rebates	0	0	0	0	257	160	417
<b>Total Miscellaneous Health Benefit Payments and Credits</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5</b>	<b>\$45,451</b>	<b>\$31,560</b>	<b>\$77,016</b>
<b>B. Administrative Expenses</b>							
1. BlueCross BlueShield Association Dues	\$0	(\$2,637)	\$34,047	(\$240)	\$715	\$0	\$31,885
2. Unallocable National Account Expenses	2,644	1,826	0	0	0	0	4,470
<b>Total Administrative Expenses</b>	<b>\$2,644</b>	<b>(\$811)</b>	<b>\$34,047</b>	<b>(\$240)</b>	<b>\$715</b>	<b>\$0</b>	<b>\$36,355</b>
<b>C. Cash Management</b>							
1. Interest Income	\$0	\$0	\$0	\$0	\$255	\$813	\$1,068
<b>Total Cash Management</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$255</b>	<b>\$813</b>	<b>\$1,068</b>
<b>D. Fraud and Abuse Program</b>							
<b>Total Fraud and Abuse Program</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total Questioned Charges</b>	<b>\$2,644</b>	<b>(\$811)</b>	<b>\$34,047</b>	<b>(\$235)</b>	<b>\$46,421</b>	<b>\$32,373</b>	<b>\$114,439</b>

# Appendix



1310 G Street, N.W.  
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202.626.4800

July 16, 2021

Mr. John A. Hirschmann, 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  
Blue Cross Blue Shield of Arkansas  
Audit Report No. 1A-10-44-21-001  
(Dated June 1, 2021)**

Dear Mr. Hirschmann:

This is the Arkansas Blue Cross and Blue Shield response to the above referenced U.S. Office of Personnel Management (OPM), Office of the Inspector General (OIG), Office of Audits Draft Audit Report covering the Federal Employees Health Benefits Program (FEHBP). Our comments concerning the findings in the report are as follows:

## **A. Miscellaneous Health Benefit Payments and Credits**

### **1. Health Benefit Refunds – Cash Receipts \$76,599**

#### **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$75,469 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan subsequently returned \$75,469 to the FEHBP for the questioned health benefit refunds, no further action is required for this amount.

#### **Plan Response:**

The Plan agreed with this recommendation and as stated, no additional action is necessary.

## **Recommendation 2**

We recommend that the contracting officer require the Plan to return \$1,130 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$1,130 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 as stated, no additional action is necessary.

## **Recommendation 3**

We recommend that the Contracting Officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that health benefit refunds and recoveries are timely returned to the FEHBP (i.e., deposited into the FEP investment account **and** returned to the letter of credit account via drawdown adjustment). The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

### **BCBSA Response:**

The Plan has provided evidence that it has implemented the necessary procedures to ensure that health benefit refunds and recoveries are timely returned to the FEHBP. We will provide documentation to support that the recommendation has been implemented and is working as intended once the Final Report is issued.

## **2. Special Plan Invoices – Medical Drug Rebates **\$417****

### **Recommendation 4**

We recommend that the contracting officer require the Plan to return \$417 to the FEHBP for the questioned LII on the SPI amounts (medical drug rebates) that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$417 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 as stated, no additional action is necessary.

## **B. Administrative Expenses**

### **1. BlueCross BlueShield Association Dues**

**\$31,885**

#### **Recommendation 5**

We recommend that the contracting officer disallow \$32,396 for the Association dues that were overcharged to the FEHBP in contract years 2017 and 2019. However, since we verified that the Plan subsequently returned \$32,396 to the FEHBP for these questioned Association dues, no further action is required for this amount.

#### **Plan Response:**

The Plan agreed with this recommendation and as stated, no additional action is necessary.

#### **Recommendation 6**

We recommend that the contracting officer require the Plan to return \$2,366 to the FEHBP for questioned LII calculated on the Association dues that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned \$2,366 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 as stated, no additional action is necessary.

#### **Recommendation 7**

We recommend that the contracting officer allow the Plan to charge \$2,877 to the FEHBP for Association due that were undercharged in contract years 2016 and 2018.

#### **Plan Response:**

The Plan has agreed with this recommendation and filed the appropriate Prior Period Adjustment for the 2016 undercharge on June 30, 2021 the Prior Period Adjustment for the 2018 undercharge was filed in October 2020 during a previous audit.

### **2. Unallocable Natural Account Expenses**

**\$4,470**

#### **Recommendation 8**

We recommend that the contracting officer require the Plan to return \$4,001 to the FEHBP for the questioned unallocable natural account charges. However, since we verified that the Plan subsequently returned \$4,001 to the FEHBP for these questioned charges, no further action is required for this amount.

**Plan Response:**

The Plan agreed with this recommendation and as stated, no additional action is necessary.

**Recommendation 9**

We recommend that the contracting officer require the Plan to return \$469 to the FEHBP for the questioned LII calculated on the unallocable natutal account charges. However, since we verified that the Plan subsequently returned \$469 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 as stated, no additional action is necessary.

**C. Cash Management**

**1. Interest Income**

**\$1,068**

**Recommendation 10**

We recommend that the contracting officer require the Plan to return \$1,068 to the FEHBP for the questioned interest income. However, since we verified that the Plan subsequently returned \$1,068 to the FEHBP for the questioned interest income, no further action is required for this amount.

**Plan Response:**

The Plan agreed with this recommendation and as stated, no additional action is necessary.

**Recommendation 11**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that earned interest income on FEHBP funds is timely returned to the FEHBP (i.e., returned to the letter of credit account via drawdown adjustment on a monthly basis). The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

**BCBSA Response:**

The Plan has provided evidence that it has implemented the necessary procedures to ensure that health benefit refunds and recoveries are timely returned to the FEHBP. We will provide documentation to support that the recommendation has been implemented and is working as intended once the Final Report is issued.

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,

Kim King  
Managing Director, FEP Program Assurance

Attachments



# Report Fraud, Waste, and Mismanagement

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