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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  
Health Care Service Corporation  
Chicago, Illinois**

**Report Number 1A-10-17-20-013**

**April 19, 2021**

# EXECUTIVE SUMMARY

## *Audit of Health Care Service Corporation*

Report No. 1A-10-17-20-013

April 19, 2021

### **Why did we conduct the audit?**

We conducted this limited scope audit to obtain reasonable assurance that the Health Care Service Corporation (Plan), which includes the BlueCross BlueShield (BCBS) plans of Illinois, Montana, New Mexico, Oklahoma, and Texas, 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 and medical drug rebates, for contract years 2015 through September 30, 2019, and administrative expense charges for contract years 2016 through 2018, as reported in the Annual Accounting Statements for the BCBS plans of Illinois, Montana, New Mexico, Oklahoma, and Texas. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract years 2015 through September 30, 2019, and the Plan's Fraud and Abuse Program activities for contract year 2019.

### **What did we find?**

We questioned \$87,142 in medical drug rebates, administrative expense overcharges, and lost investment income (LII). We also identified a procedural finding for the Plan's cash receipt health benefit refunds. The BlueCross BlueShield Association and/or Plan agreed with all of the questioned amounts as well as the procedural finding for the Plan's cash receipt health benefit refunds. 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 \$5,247 for LII on medical drug rebates that were returned untimely to the FEHBP. We also identified 37 cash receipt health benefit refunds that were returned untimely to the FEHBP during the audit scope. However, since the Plan deposited a refund advance into the FEHBP letter of credit account to cover potential health benefit refunds and recoveries that are returned untimely to the FEHBP, these 37 cash receipt refund exceptions are not subject to LII.
- Administrative Expenses – We questioned \$81,895 in administrative expense overcharges and LII, consisting of \$76,646 for unallowable and/or unallocable natural account charges and \$5,249 for applicable LII on these questioned charges.
- Cash Management – The audit disclosed no significant findings pertaining to the Plan's cash management activities and practices. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.
- Fraud and Abuse Program – The Plan is in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.



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

# ABBREVIATIONS

<b>Association</b>	<b>BlueCross BlueShield Association (BCBSA)</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>HCSC</b>	<b>Health Care Service Corporation</b>
<b>LII</b>	<b>Lost Investment Income</b>
<b>LOCA</b>	<b>Letter of Credit Account</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>Health Care Service Corporation</b>
<b>Prime</b>	<b>Prime Therapeutics</b>
<b>SIU</b>	<b>Special Investigations Unit</b>
<b>SPI</b>	<b>Special Plan Invoice</b>

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# 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 the Health Care Service Corporation (HCSC or Plan), pertaining to the BlueCross BlueShield plans of Illinois, Montana, New Mexico, Oklahoma, and Texas. The Plan's headquarters are located in Chicago, Illinois.

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

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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.

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.

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.

All findings from our previous audit of the Plan (Report No. 1A-10-17-13-019, dated March 28, 2014), for contract year 2009 through September 30, 2012, 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 November 19, 2020; and were presented in detail in a draft report, dated December 11, 2020. 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

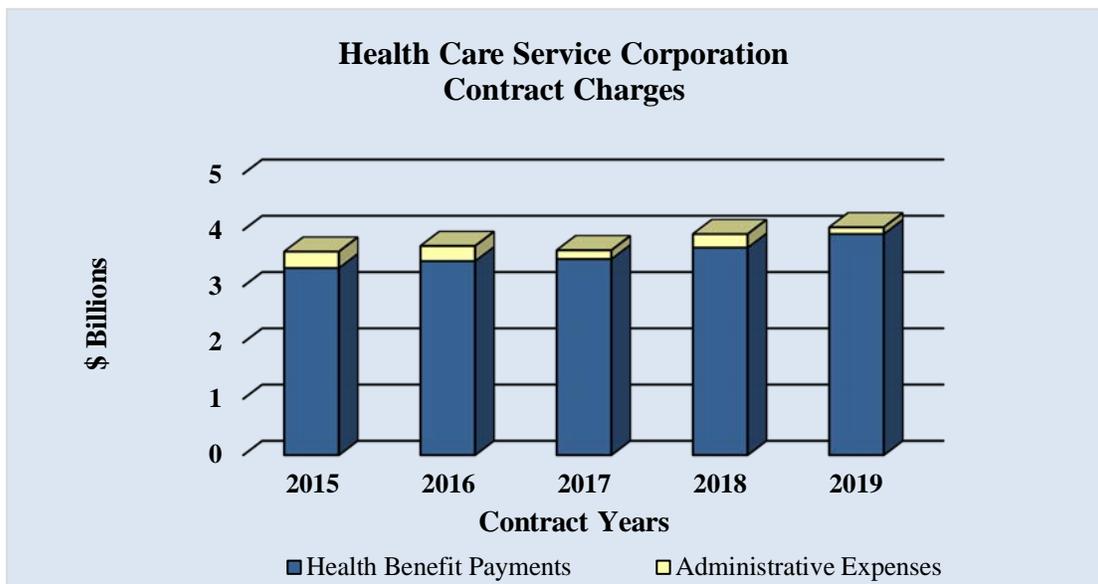
- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and Carrier Letter 2017-13.

### 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 121/621 (BCBS of Illinois), 250/751 (BCBS of Montana), 290/790 (BCBS of New Mexico), 340/840 (BCBS of Oklahoma), and 400/900 (BCBS of Texas) for contract years 2015 through 2019. During this period, the Plan paid approximately \$17.9 billion in FEHBP health benefit payments and charged the FEHBP approximately \$1.1 billion in administrative expenses for the BCBS plans of Illinois, Montana, New Mexico, Oklahoma, and Texas combined (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., auto recoupment and cash receipt refunds, subrogation recoveries, hospital settlements, and medical drug rebates) for contract year 2015 through September 30, 2019, and administrative expense charges for contract years 2016 through 2018, as reported in the Annual Accounting Statements for the Plan’s five BCBS plans. We also reviewed the Plan’s cash management activities and practices related to FEHBP funds for contract year 2015 through September 30, 2019, and the Plan’s Fraud and Abuse Program activities for contract year 2019.

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 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 was performed at our offices in Jacksonville, Florida and Washington, D.C. from May 7, 2020, through November 19, 2020. Throughout the audit process, the Plan did a really good job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We 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 2015 through September 30, 2019, we judgmentally selected and reviewed the following FEP items for the Plan's five BCBS plans:

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

- A high dollar sample of 100 FEP health benefit refunds returned via auto recoupments, totaling \$53,097,117 (from a universe of 272,020 FEP refunds returned via auto recoupments, totaling \$469,322,046, for the audit scope). Our sample included the 20 highest dollar auto recoupments from each year of the audit scope for the Plan's BCBS plans combined. The sample included multiple auto recoupments from each of the Plan's five BCBS plans.
- A high dollar sample of 200 FEP cash receipt health benefit refunds, totaling \$49,808,927 (from a universe of 334,071 FEP cash receipt refunds, totaling \$254,459,457, for the audit scope). Our sample included the 40 highest dollar cash receipt refunds from each year of the audit scope for the Plan's BCBS plans combined. The sample included multiple cash receipt refunds from each of the Plan's five BCBS plans.

### Other Health Benefit Payments, Credits, and Recoveries

- A judgmental sample of 13 corporate hospital settlement amounts, totaling \$120,502,628 in net FEP payments (from a universe of 835 corporate hospital settlement amounts, totaling \$745,429,794 in net corporate payments, for the audit scope pertaining to BCBS of Illinois only). For this sample, we selected the hospital settlements with the five highest payment amounts and the five highest credit amounts from the audit scope. We also selected three additional hospital settlement amounts based on our nomenclature review of the Plan's hospital settlement universe. (For the Plan's five BCBS plans, BCBS of Illinois was the only plan with hospital settlements during the audit scope.)
- A judgmental sample of 30 special plan invoices (SPI), totaling \$72,006,220 in net FEP credits (from a universe of 1,354 SPI's, totaling \$95,757,542 in net FEP credits, for the audit scope). We judgmentally selected these SPI's based on our nomenclature review of the SPI with the highest dollar payment or credit amount (excluding medical drug rebates) for each of the Plan's five BCBS plans. We also selected five additional SPI's for BCBS of Illinois based on our nomenclature of the SPI universe. 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.

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<sup>2</sup> The Plan's FEP universes of cash receipt and auto recoupment refunds consisted of items such as solicited and unsolicited refunds, subrogation recoveries, provider audit recoveries, and fraud recoveries from the Plan's yearly refund files and included the Plan's five BCBS plans combined.

- A high dollar sample of 43 FEP medical drug rebate amounts, totaling \$9,541,793 (from a universe of 109 FEP medical drug rebate amounts, totaling \$9,921,738, for the audit scope). For this sample, we selected all medical drug rebate amounts greater than \$40,000 from the audit scope for the Plan's BCBS plans combined. The sample included multiple medical drug rebate amounts from each of the Plan's five BCBS plans.

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 2016 through 2018. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement benefits; out-of-system adjustments; prior period adjustments; gains and losses; executive compensation limits; Association dues; and Patient Protection and Affordable Care Act fees.<sup>3</sup> We used the FEHBP contract, the FAR, the 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.<sup>4</sup> As part of our testing, we selected and reviewed a judgmental sample of 200 letter of credit account (LOCA) drawdowns, totaling \$1,694,406,527 (from a universe of 5,782 LOCA drawdowns, totaling \$16,801,211,537, for contract year 2015 through September 30, 2019), for the purpose of determining if the Plan's drawdowns were appropriate and adequately supported. Our sample included 25 or 50 LOCA drawdowns from the audit scope for each of the Plan's five BCBS plans. Specifically, for the BCBS plans of Illinois, Oklahoma, and Texas, we

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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 2016 through 2018, the Plan allocated administrative expenses of \$669,240,547 (before adjustments) to the FEHBP for the Plan's five BCBS plans, from 1,170 cost centers that contained 347 natural accounts. From this universe, we selected a judgmental sample of 65 cost centers to review, which totaled \$217,612,893 in expenses allocated to the FEHBP. We also selected a judgmental sample of 50 natural accounts to review, which totaled \$186,882,427 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.

<sup>4</sup> During our scope, the Plan did not have working capital deposits for the Plan's five BCBS plans. (Note: Based on OPM's "Letter of Credit System Guidelines" (dated April 2018), a working capital deposit is recommended but not required.) Therefore, the Plan did not have dedicated FEP investment accounts for the Plan's five BCBS plans.

judgmentally selected the 10 highest dollar LOCA drawdowns from each year in the audit scope for each of these plans. For the BCBS plans of New Mexico and Montana, we judgmentally selected the five highest dollar LOCA drawdowns from each year in the audit scope for each of these plans. In total, these 200 LOCA drawdowns consisted of the following:

- 50 LOCA drawdowns, totaling \$735,666,603 (from 1,168 LOCA drawdowns, totaling \$9,361,822,049), for BCBS of Texas;
- 50 LOCA drawdowns, totaling \$527,068,347 (from 1,141 LOCA drawdowns, totaling \$3,700,310,342), for BCBS of Illinois;
- 50 LOCA drawdowns, totaling \$344,693,751 (from 1,152 LOCA drawdowns, totaling \$2,243,726,399), for BCBS of Oklahoma;
- 25 LOCA drawdowns, totaling \$48,645,850 (from 1,155 LOCA drawdowns, totaling \$665,541,169), for BCBS of Montana; and,
- 25 LOCA drawdowns, totaling \$38,331,977 (from 1,166 LOCA drawdowns, totaling \$829,811,577), for BCBS of New Mexico.

The sample results were not projected to the universe of LOCA drawdowns, since we did not use statistical sampling. When reviewing the Plan's LOCA drawdowns, we also reviewed the United States Treasury offsets during the audit scope.

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, applicable to the Plan's two largest BCBS plans (Illinois and Texas), 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. Medical Drug Rebates

\$5,247

Our audit determined that the Plan untimely returned six medical drug rebate amounts, totaling \$1,032,044, to the FEHBP during the audit scope. As a result of this audit finding, the Plan subsequently returned \$5,247 to the FEHBP for applicable lost investment income (LII) on these medical drug rebates that were returned untimely to the FEHBP.

Contract CS 1039, Part II, Section 2.3 (i) states, “All health benefit refunds and recoveries . . . must be deposited into the working capital or investment account [if applicable] 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.”

Many of the BCBS plans participate in medical drug rebate programs with various drug manufacturers. The drug rebates are determined based on medical claims for the applicable drugs, which are primarily administered in a physician’s office. These medical drug rebates are received multiple times a year (usually on a quarterly basis) by the BCBS plans and credited to the participating groups, including the FEP. The Plan submits quarterly data submissions of medical drug claims to the Plan’s Pharmacy Benefit Manager, Prime Therapeutics (Prime), for the purpose of identifying and recovering drug rebates from the applicable drug manufacturers. Prime is a subsidiary of the Plan and is owned by 19 BCBS plans (including the Plan’s five BCBS plans, which own approximately 39 percent of Prime).

For contract year 2015 through September 30, 2019, the Plan received 109 FEP medical drug rebate amounts, totaling \$9,921,738, from Prime pertaining to various drug manufacturers.<sup>5</sup> From this universe, we selected and reviewed a judgmental sample of 43 medical drug rebate amounts, totaling \$9,541,793, to determine if the Plan timely returned these rebates to the FEHBP. Our sample included all FEP medical drug rebate amounts greater than \$40,000 from each year in the audit scope.

Based on our review, we noted that the Plan returned six medical drug rebate amounts, totaling \$1,032,044, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan returned these medical drug rebate amounts to the FEHBP from 1 to 55 days late. As a result of our audit finding, the Plan calculated LII of \$5,247 on these medical drug rebates that were returned untimely to the FEHBP. We reviewed and accepted the Plan's LII calculation.

**Association/Plan Response:**

***The Plan agrees with the finding and recommendation. The Plan returned the questioned LII of \$5,247 to the FEHBP.***

**OIG Comment:**

As part of our review, we verified that the Plan returned the questioned LII of \$5,247 to the FEHBP on December 29, 2020, and January 5, 2021.

During our post-audit phase, we learned that the Association centralized the FEP medical drug rebate recovery process for several of the medical drugs. As of April 1, 2020, the Association is recovering 19 types of medical drug rebates on a quarterly basis, on behalf of the 36 BCBS companies, and then returning these FEP medical drug rebates to the FEHBP.

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<sup>5</sup> As a result of a miscommunication and/or misunderstanding between the Association and HCSC in November 2013, most of the medical drug rebates for contract years 2014, 2015, and 2016 were inadvertently not recovered by the five BCBS plans from Prime and returned to the FEHBP by HCSC. When HCSC realized this miscommunication and/or misunderstanding in September 2016, they immediately attempted to recover these medical drug rebates but were mostly unsuccessful because of timeliness requirements and/or anti-kickback practices (according to HCSC and Prime). We noted that HCSC successfully recovered and returned all of the medical drug rebates to the FEHBP for contract year 2016, but could not recover substantially all of the medical drug rebates for contract years 2014 and 2015. Although we requested on multiple occasions, HCSC could not determine the potential unrecovered amounts for contract years 2014 and 2015.

## **Recommendation 1**

We recommend that the contracting officer require the Plan to return \$5,247 to the FEHBP for the questioned LII on the medical drug rebates that were returned untimely to the FEHBP during the audit scope. However, since we verified the Plan subsequently returned \$5,247 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## **2. Health Benefit Refunds – Cash Receipts**

## **Procedural**

Our audit determined that the Plan untimely returned 37 cash receipt health benefit refunds, totaling \$6,479,258, to the FEHBP during the audit scope. Because the Plan deposited a refund advance into the LOCA to cover potential health benefit refunds and recoveries that are returned untimely to the FEHBP, these 37 refund exceptions are not subject to LII. Therefore, this is a procedural finding.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be returned to the LOCA 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 2015 through September 30, 2019, there were 334,071 FEP cash receipt health benefit refunds, totaling \$254,459,457, for the Plan's five BCBS plans combined. From this universe, we judgmentally selected and reviewed a sample of 200 cash receipt refunds, totaling \$49,808,927, to determine if the Plan timely returned these refunds to the FEHBP. Our sample included the 40 highest dollar cash receipt refunds from each year in the audit scope for the Plan's five BCBS plans combined.

**The Plan untimely returned 37 cash receipt refunds to the FEHBP during the audit scope.**

Based on our review, we determined that the Plan returned 37 cash receipt refunds, totaling \$6,479,258, untimely to the FEHBP during the audit scope (an 18 percent exception rate for the sample). Specifically, we noted that the Plan returned these 37 cash receipt refunds to the LOCA via drawdown adjustments from 2 to 137 days late. We recognize that the Plan calculated and deposited a refund advance of approximately \$14 million into the LOCA (as of September 30, 2019) to cover potential health benefit refunds and recoveries that are returned untimely to the FEHBP. Therefore, we did not calculate LII on these 37 cash receipt refunds that were untimely returned to the FEHBP.

**Association/Plan Response:**

*“HCSC appreciates and agrees with OPM-OIG’s recognition that none of the samples identified resulted in any monetary impact to FEHBP. The refund advance covered the untimely health benefit refunds and recoveries. As such, this is an effective safeguard to mitigate the monetary impact to FEHBP for untimely refunds and recoveries. . . . many of the returns were untimely due to the use of two processing systems. Recently, HCSC has migrated refund adjustment claim processing to a modernized local claim system; this has eliminated dual system adjudication steps and improved timeliness. . . . HCSC continues to work diligently to improve timeliness of health benefit refunds and recoveries.”*

*“BCBSA [Association] will work with the Plan to provide supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that refund adjustments are timely adjusted on the FEP claims system. BCBSA will also provide a certification to OPM Audit Resolution and Compliance that the corrective actions have been implemented once the final report is received.”*

**Recommendation 2**

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 cash receipt refunds are timely returned to the FEHBP (i.e., returned to the LOCA via drawdown adjustment within 60 days after receipt). The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

**B. ADMINISTRATIVE EXPENSES**

The audit disclosed no significant 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 finding for “Unallowable and/or Unallocable Natural Account Expenses”).

**1. Unallowable and/or Unallocable Natural Account Expenses** **\$81,895**

The Plan charged unallowable and/or unallocable natural account expenses to the FEHBP for contract years 2015 through 2019. As a result, we are questioning \$81,895 for this

audit finding, consisting of \$76,646 for unallowable and/or unallocable natural account charges and \$5,249 for applicable LII on these questioned charges.

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.”

48 CFR 31.205-14 states, “Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable.”

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.

**The Plan charged the FEHBP \$76,646 for unallowable and/or unallocable natural account expenses.**

For contract years 2016 through 2018, the Plan allocated administrative expenses of \$669,240,547 (before adjustments) to the FEHBP for the Plan’s five BCBS plans, from 1,170 cost centers that contained 347 natural accounts. From this universe, we selected a judgmental sample of 65 cost centers to review, which totaled \$217,612,893 in expenses allocated to the FEHBP. We also selected a judgmental sample of 50 natural accounts to review, which totaled \$186,882,427 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 the following unallowable and/or unallocable natural account expenses to the FEHBP for contract years 2015 through 2019:

- While reviewing natural account “645204” (Entertainment) for contract year 2018, we identified a few transactions where the Plan inadvertently classified entertainment expenses as business meals, such as payments for Chicago Bears Football Club memberships and Chicago Cubs baseball tickets, resulting in unallowable expenses to be charged to the FEHBP. As a result, the Plan performed an analysis of natural account “645204” and determined that unallowable entertainment expenses of \$71,102 were inadvertently charged to the FEHBP for contract years 2015 through 2019 (pertaining to BCBS of Illinois). We reviewed and accepted the Plan’s analysis and LII calculation. As a result, we are questioning \$75,788 for this exception,

consisting of \$71,102 for the unallowable entertainment expenses that were charged to the FEHBP and \$4,686 for applicable LII.

- When responding to our audit request for natural account “625700” (Legal Fees), the Plan disclosed that unallocable legal fees were not removed from expenses that were charged to the FEHBP for contract year 2016. The Plan performed an analysis and determined that unallowable expenses of \$5,544 were inadvertently charged to the FEHBP for contract year 2016 (pertaining to BCBS of New Mexico). We reviewed \$6,107 for this exception, consisting of \$5,544 for unallocable legal expenses that were charged to the FEHBP and \$563 for applicable LII.

In total, the Plan subsequently returned \$81,895 to the FEHBP for this audit finding, consisting of \$76,646 (\$71,102 plus \$5,544) for the questioned unallowable and/or unallocable natural account charges and \$5,249 (\$4,686 plus \$563) for applicable LII on these questioned charges.

**Association/Plan Response:**

*The Plan returned the questioned charges and applicable LII to the FEHBP.*

**OIG Comment:**

Subsequent to the draft report, we revised the questioned charges and LII for this audit finding based on additional supporting documentation provided by the Plan.

As part of our review, we verified that the Plan wire transferred the revised questioned charges of \$76,646 to the Association’s FEP account, and then the Association returned these funds to the FEHBP via wire transfer to OPM on December 17, 2020. We also verified that the Plan returned the revised LII of \$5,249 to the FEHBP on December 11, 2020. As a result, we concluded that the Plan agrees with the revised finding and recommendations.

**Recommendation 3**

We recommend that the contracting officer disallow \$76,646 for the unallowable and/or unallocable natural account expenses that were charged to the FEHBP. However, since we verified that the Plan subsequently returned \$76,646 to the FEHBP for these questioned charges, no further action is required for this amount.

#### **Recommendation 4**

We recommend that the contracting officer require the Plan to return \$5,249 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable natural account charges. However, since we verified that the Plan subsequently returned \$5,249 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### **C. CASH MANAGEMENT**

The audit disclosed no significant findings pertaining to the Plan's cash management activities and practices. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.

### **D. FRAUD AND ABUSE PROGRAM**

**The Plan timely entered all 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 applicable to the BCBS plans of Illinois and Texas. For contract year 2019, the Plan opened 160 fraud and abuse cases with potential FEP exposure for the BCBS plans of Illinois and Texas. From this universe, we selected and reviewed 20 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>6</sup> For this sample, we judgmentally selected these cases based on our nomenclature review of potential high dollar FEP exposure amounts with affirmative step dates. After a preliminary review by the Plan, the affirmative step is when the Plan makes a decision on whether the allegation or complaint is a potential fraud, waste, and/or abuse issue, and therefore, reportable to the OPM's OIG. 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. The sample results were not projected to the universe of fraud and abuse cases with potential FEP exposure, since we did not use statistical sampling. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13.

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<sup>6</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.

# IV. SCHEDULE A - QUESTIONED CHARGES

## HEALTH CARE SERVICE CORPORATION CHICAGO, ILLINOIS

### QUESTIONED CHARGES

AUDIT FINDINGS	2015	2016	2017	2018	2019	2020	TOTAL
<b>A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>							
1. Medical Drug Rebates*	\$45	\$0	\$0	\$630	\$4,567	\$5	\$5,247
2. Health Benefit Refunds - Cash Receipts (Procedural)	0	0	0	0	0	0	0
<b>TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</b>	<b>\$45</b>	<b>\$0</b>	<b>\$0</b>	<b>\$630</b>	<b>\$4,567</b>	<b>\$5</b>	<b>\$5,247</b>
<b>B. ADMINISTRATIVE EXPENSES</b>							
1. Unallowable and/or Unallocable Natural Account Expenses*	\$12,453	\$18,322	\$10,816	\$18,548	\$20,573	\$1,183	\$81,895
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$12,453</b>	<b>\$18,322</b>	<b>\$10,816</b>	<b>\$18,548</b>	<b>\$20,573</b>	<b>\$1,183</b>	<b>\$81,895</b>
<b>C. CASH MANAGEMENT</b>							
<b>TOTAL CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</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>\$12,498</b>	<b>\$18,322</b>	<b>\$10,816</b>	<b>\$19,178</b>	<b>\$25,140</b>	<b>\$1,188</b>	<b>\$87,142</b>

\* We included lost investment income (LII) within audit findings A1 (\$5,247) and B1 (\$5,249). Therefore, no additional LII is applicable.

## APPENDIX

January 25, 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 HCSC  
Audit Report No. 1A-10-17-20-013  
(Dated December 11, 2020)**

Dear Mr. Hirschmann:

This is the HCSC response to the above referenced U.S. Office of Personnel Management (OPM), Office of Inspector General (OIG), Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) for 2015-2019. Our comments concerning the findings and recommendations in the report are as follows:

### **A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS**

#### **1. Medical Drug Rebates**

*Deleted by the Office of the Inspector General – Not Relevant to the Final Report*

#### **Recommendation**

We recommend that the contracting officer require the Plan to return \$5,058 to the FEHBP for the questioned LII on the medical drug rebates that were returned untimely to the FEHBP during the audit scope.

#### **Plan Response**

HCSC calculated a slightly higher amount of LII totaling \$5,246.69. On December 18, 2020, HCSC submitted Special Plan Invoices (SPI) for this amount to the Program for approval. The LII was returned to the FEHBP on December 28, 2020 and January 4, 2021.

## 2. Health Benefit Refunds – Cash Receipts

Procedural

### Recommendation

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 cash receipt refunds are timely returned to the FEHBP. The contracting officer should also require the Association to provide a certification that the Plan has implemented these corrective actions.

### **Plan Response**

HCSC appreciates and agrees with OPM-OIG's recognition that none of the samples identified resulted in any monetary impact to FEHBP. The refund advance covered the untimely health benefit refunds and recoveries. As such, this is an effective safeguard to mitigate the monetary impact to FEHBP for untimely refunds and recoveries. Please note that many of the returns were untimely due to the use of two processing systems. Recently, HCSC has migrated refund adjustment claim processing to a modernized local claim system; this has eliminated dual system adjudication steps and improved timeliness. HCSC has tracked the number of aged inventory transactions since 2015, and realized a decline in volume year over year. HCSC continues to work diligently to improve timeliness of health benefit refunds and recoveries.

### **BCBSA Response**

BCBSA will work with the Plan to provide supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that refund adjustments are timely adjusted on the FEP claims system. BCBSA will also provide a certification to OPM Audit Resolution and Compliance that the corrective actions have been implemented once the final report is received.

## **B. ADMINISTRATIVE EXPENSES**

### 1. Unallowable and/or Unallocable Natural Account Expenses

\$82,743

#### Recommendation

We recommend that the contracting officer disallow \$77,517 for the questioned unallowable and/or unallocable expenses that were charged to the FEHBP.

#### **Plan Response**

HCSC returned the funds to the FEHBP on December 3, 2020 and December 4, 2020. The LII was submitted on December 11, 2020. HCSC provided documentation to support the transfer on January 13, 2021.

**Recommendation**

We recommend that the contracting officer require the Plan to return \$5,226 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable expenses.

**Plan Response**

The LII was submitted on December 11, 2020. HCSC provided documentation to support the transfer on January 13, 2021.

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

Sincerely,

[Redacted Signature]

cc:

[Redacted Distribution List]



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

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