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

Final Audit Report

Audit of BlueCross BlueShield of Arizona
Phoenix, Arizona

Report Number 1A-10-56-19-009
January 22, 2020

EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of Arizona

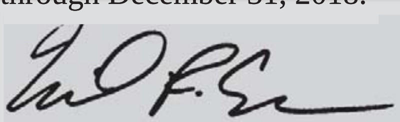
Report No. 1A-10-56-19-009 **January 22, 2020**

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of Arizona (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, from 2014 through September 30, 2018, and administrative expense charges from 2013 through 2017, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2014 through September 30, 2018, and the Plan's Fraud and Abuse Program activities from January 1, 2018, through December 31, 2018.



Michael R. Esser
Assistant Inspector General for Audits

What did we find?

We questioned $373,623 in miscellaneous health benefit credits, administrative expense charges, and lost investment income (LII). The BlueCross BlueShield Association and 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 $31,624 for miscellaneous income and $24,664 for special plan invoice amounts that had not been returned to the FEHBP and $3,704 for applicable LII on these questioned amounts.

- Administrative Expenses – We questioned $287,563 for quality improvement cost overcharges and $26,068 for applicable LII on these overcharges.

- Cash Management – The audit disclosed no 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.

ABBREVIATIONS

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

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I. BACKGROUND

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

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[1]) 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 CareFirst BCBS, located in Owings Mills, Maryland and 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),

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

maintaining a history file of all FEHBP claims, and maintaining claims payment data and related financial data in support of the Association's accounting of all program funds.

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-10-56-13-047, dated February 25, 2014), for contract years 2008 through 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 September 5, 2019; and were presented in detail in a draft report, dated September 12, 2019. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

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.

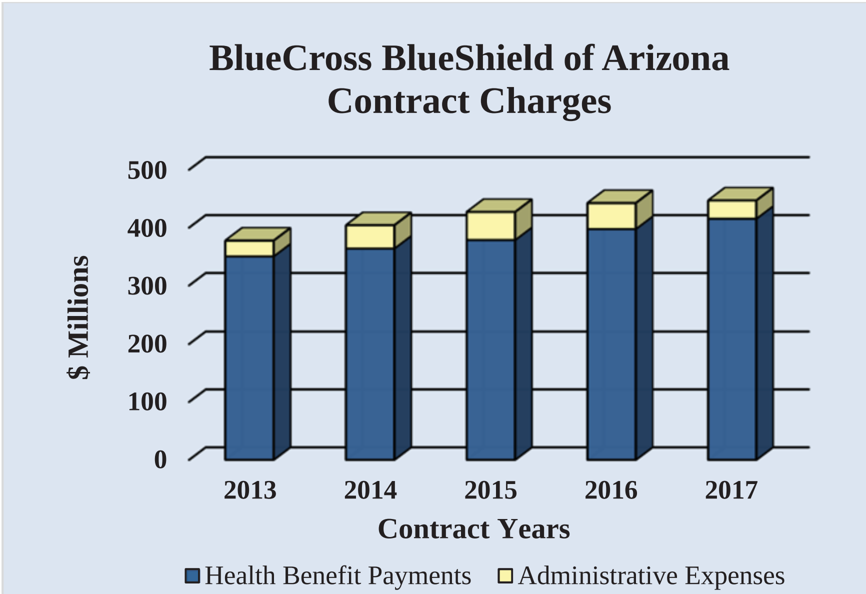
Fraud and Abuse Program

- 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 as they pertain to Plan codes 030 and 530 for contract years 2013 through 2017. During this period, the Plan paid approximately $1.9 billion in FEHBP health benefit payments and charged the FEHBP $192 million in administrative expenses (see chart below).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash and auto recoupment refunds, medical drug rebates, and special plan invoices) from 2014 through September 30, 2018, and administrative expense charges from 2013 through 2017. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2014 through September 30, 2018, and the Plan's Fraud and Abuse Program activities from January 1, 2018, through December 31, 2018.

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 procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the 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 the Plan's office in Phoenix, Arizona on various dates from April 8, 2019, through June 14, 2019. Audit fieldwork was also performed at our offices in Jacksonville, Florida and Washington, D.C. through September 5, 2019. Throughout the audit process, the Plan did a good job providing complete and timely responses to our numerous requests for supporting documentation. We greatly 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 the period 2014 through September 30, 2018, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds[2]

- A high dollar sample of 117 FEP health benefit refund cash receipts, totaling $2,715,577 (from a universe of 29,031 FEP refund cash receipt amounts, totaling $9,594,457 for the audit scope). From each year in the audit scope, our high dollar sample included the 15 highest unsolicited refund amounts and all solicited refund amounts of $6,000 or more. In total, the sample included 75 unsolicited refund amounts, totaling $2,067,885, and 42 solicited refund amounts, totaling $647,692.

[2] The Plan's FEP universes of cash receipt and auto recoupment refunds included solicited and/or unsolicited refunds that consisted of items such as claim overpayment recoveries, subrogation recoveries, provider audit recoveries, and fraud recoveries from the Plan's yearly refund files.

- A high dollar sample of 50 FEP health benefit refunds returned via auto recoupments, totaling $2,606,808 (from a universe of 21,155 FEP refunds returned via auto recoupments, totaling $15,533,360, for the audit scope). Our high dollar sample included the 10 highest auto recoupment amounts from each year of the audit scope.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of 30 special plan invoices (SPI), totaling $2,278,639 in net FEP payments (from a universe of 159 SPI's, totaling $4,339,451 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, from each year in the audit scope, we selected all SPI's with credit amounts of $1,000 or more (excluding medical drug rebates) and the SPI's with the five highest dollar payment amounts. 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 high dollar sample of 10 medical drug rebate amounts, totaling $107,674 (from a universe of 38 FEP medical drug rebate amounts, totaling $174,411, for the audit scope). For this sample, we selected the 10 highest dollar medical drug rebate amounts from the audit scope.

We reviewed these samples to determine if health benefit refunds and recoveries 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 2013 through 2017. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement benefits; out-of-system adjustments; prior period adjustments; non-recurring costs; executive compensation limits; and Patient Protection and Affordable Care Act fees.[3] We used the FEHBP contract, the FAR, the FEHBAR, and/or the

[3] 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. The Plan allocated administrative expenses of $140,893,419 to the FEHBP from 290 cost centers that contained 210 natural accounts. From this universe, we selected a judgmental sample of 49 cost centers to review, which totaled $96,773,761 in expenses allocated to the FEHBP. We also selected a judgmental sample of 45 natural accounts to review, which totaled $51,165,710 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, high dollar allocation methods, and our nomenclature review and 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.

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.[4] As part of our testing, we selected and reviewed a judgmental sample of 57 letter of credit account drawdowns, totaling $167,213,466 (from a universe of 1,206 letter of credit account drawdowns, totaling $1,875,922,359, for the period 2014 through September 30, 2018), 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. The sample results were not projected to the universe of letter of credit account drawdowns, since we did not use statistical sampling. When reviewing the Plan's letter of credit account 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 to test compliance with Contract CS 1039 and FEHBP Carrier Letter 2017-13.

[4] During the scope of our audit, the Plan did not have a working capital deposit. (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 a dedicated FEP investment account.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Miscellaneous Income $33,436

During our pre-audit phase, the Plan self-disclosed that an allocable share of miscellaneous income received from the State of Arizona had not been returned to the FEHBP as of September 30, 2018. As a result, we are questioning $33,436 for this audit finding, consisting of $31,624 for FEP's share of the miscellaneous income and $1,812 for applicable lost investment income (LII) on these questioned funds.

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

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 self-disclosed that miscellaneous income of $31,624 had not been returned to the FEHBP.

In 2017, the Plan received miscellaneous income, totaling $297,891, from the State of Arizona for unclaimed funds. The Plan could not reconcile these unclaimed funds (checks) to specific claims or lines of business. Therefore, the Plan decided to allocate these funds to all lines of business, including the FEP, based on paid claims statistics for 2014. During our fieldwork phase, the Plan allocated and returned $31,624 of these funds to the FEHBP. We reviewed and accepted the Plan's allocation methodology and calculation for the FEP miscellaneous income amount.

In total, the Plan returned $33,436 to the FEHBP for this finding, consisting of $31,624 for FEP's share of the miscellaneous income and $1,812 for applicable LII on these questioned funds (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $33,436 to the FEHBP on June 19, 2019, consisting of $31,624 for FEP's share of the miscellaneous income and $1,812 for applicable LII.

Recommendation 1

We recommend that the contracting officer require the Plan to return $31,624 to the FEHBP for FEP's share of the miscellaneous income. However, since we verified that the Plan subsequently returned $31,624 to the FEHBP for FEP's share of the miscellaneous income, no further action is required for this questioned amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $1,812 to the FEHBP for LII on the questioned miscellaneous income. However, since we verified that the Plan subsequently returned $1,812 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Special Plan Invoices $26,556

Our audit determined that the Plan had not returned four SPI amounts, totaling $24,664, to the FEHBP as of September 30, 2018. The Plan subsequently returned these SPI amounts to the FEHBP in April 2019, more than two years late and after receiving our audit notification letter. As a result, we are questioning $26,556 for this audit finding, consisting of $24,664 for the questioned SPI amounts and $1,892 for LII on these SPI amounts 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 within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier."

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., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification."

The Plan returned SPI amounts of $24,664 to the FEHBP more than two years late and after our audit notification.

For the period 2014 through September 30, 2018, there were 159 SPI's, totaling $4,339,451 in net FEP payments. From this universe, we selected and reviewed a judgmental sample of 30 SPI's, totaling $2,278,639 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 30 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 (except pay code for medical drug rebates), we selected all SPI's with credit amounts of $1,000 or more and the SPI's with the five highest dollar payment amounts from each year in the audit scope.

Based on our review, we noted that the Plan had not returned four SPI credit amounts, totaling $24,664, to the FEHBP as of September 30, 2018. These SPI's were for FEP member overpayments that were several years old. The Plan decided to hold the members harmless for these overpayments and reimburse the FEHBP from corporate funds. The Plan subsequently returned these SPI amounts to the FEHBP in April 2019, more than two years late, after receiving our audit notification letter, and/or as a result of our audit.

In total, the Plan returned $26,556 to the FEHBP for these SPI exceptions, consisting of $24,664 for the questioned SPI amounts and $1,892 for applicable LII on these SPI amounts returned untimely to the FEHBP (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $26,556 to the FEHBP on various dates in April 2019 and May 2019, consisting of $24,664 for the questioned SPI amounts and $1,892 for applicable LII.

Recommendation 3

We recommend that the contracting officer require the Plan to return $24,664 to the FEHBP for the questioned SPI's. However, since we verified that the Plan subsequently returned $24,664 to the FEHBP for these questioned SPI's, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return $1,892 to the FEHBP for LII on the questioned SPI amounts. However, since we verified that the Plan subsequently returned $1,892 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Cost Settlement Adjustment for Quality Improvement Costs $313,631

Our audit determined that the Plan had not correctly made a cost settlement adjustment to credit the FEHBP for 2015 quality improvement cost overcharges. Because of this audit finding, the Plan subsequently returned $313,631 to the FEHBP, consisting of $287,563 for the quality improvement cost overcharges and $26,068 for applicable LII on these overcharges.

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.

For contract years 2013 through 2017, the FEP Director's Office approved a monthly expense allowance for budgeted quality improvement costs, resulting in charges of $22,829,095 to the FEHBP ($1,376,776 in 2013, $3,914,129 in 2014, $5,280,962 in 2015, $6,050,813 in 2016, and $6,206,415 in 2017). Following each contract year, the Plan and FEP Director's Office performed a cost settlement, where the Plan made an adjustment based on the difference between the Plan's budgeted and actual settled costs. We reviewed these quality improvement cost settlements and applicable supporting documentation to determine if the Plan made the necessary adjustments to credit and/or charge the FEHBP for the cost settlement differences.

The Plan overcharged the FEHBP $287,563 for quality improvement costs.

Based on our review, we determined that the Plan correctly made the quality improvement cost settlement adjustments for 2013, 2014, 2016, and 2017. However, for contract year 2015, we determined that the Plan had not made the applicable adjustment, totaling $287,563, to credit the FEHBP for quality improvement cost overcharges. Specifically, the Plan did not adjust the letter of credit account to return these overcharges to the FEHBP. As a result, the Plan subsequently returned $313,631 to the FEHBP for this finding, consisting of $287,563 for the 2015 quality improvement costs that were overcharged to the FEHBP and $26,068 for applicable LII on these overcharges (as calculated by the OIG).

Association/Plan Response:

The Plan agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $313,631 to the FEHBP on various dates in July 2019 and September 2019, consisting of $287,563 for the questioned overcharges and $26,068 for applicable LII.

Recommendation 5

We recommend that the contracting officer disallow $287,563 for quality improvement costs that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $287,563 to the FEHBP for these quality improvement cost overcharges, no further action is required for this questioned amount.

Recommendation 6

We recommend that the contracting officer require the Plan to return $26,068 to the FEHBP for LII calculated on the questioned quality improvement cost overcharges. However, since we verified that the Plan subsequently returned $26,068 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. CASH MANAGEMENT

The audit disclosed no 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 significant findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For the period January 1, 2018, through December 31, 2018, the Plan opened 74 fraud and abuse cases with potential FEP exposure. From this universe, we selected and reviewed a judgmental sample of 28 cases and determined if the Plan timely entered these fraud and abuse cases into the Association's FEP Special Investigations Unit Tracking System (FSTS).[5] For this sample, we selected all cases with potential overpayments of $10,000 or more. 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 set forth in FEHBP Carrier Letter 2017-13.

[5] 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

BLUECROSS BLUESHIELD OF ARIZONA
PHOENIX, ARIZONA

QUESTIONED CHARGES

AUDIT FINDINGS*	2015	2016	2017	2018	2019	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS						
1. Miscellaneous Income	$0	$0	$32,001	$964	$471	$33,436
2. Special Plan Invoices	0	24,969	598	751	238	26,556
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$0	$24,969	$32,599	$1,715	$709	$59,992
B. ADMINISTRATIVE EXPENSES						
1. Cost Settlement Adjustment for Quality Improvement Costs	$287,563	$5,106	$6,969	$8,769	$5,224	$313,631
TOTAL ADMINISTRATIVE EXPENSES	$287,563	$5,106	$6,969	$8,769	$5,224	$313,631
C. CASH MANAGEMENT						
TOTAL CASH MANAGEMENT	$0	$0	$0	$0	$0	$0
D. FRAUD AND ABUSE PROGRAM						
TOTAL FRAUD AND ABUSE PROGRAM	$0	$0	$0	$0	$0	$0
TOTAL QUESTIONED CHARGES	$287,563	$30,075	$39,568	$10,484	$5,933	$373,623

* We included lost investment income (LII) within the audit findings. Therefore, no additional LII is applicable.

BlueCross BlueShield Association
Federal Employee Program
1310 G Street, N.W.
Washington, D.C. 20005
202.626.4800

APPENDIX

October 28, 2019

Mr. [redacted], 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**
BlueCross BlueShield of Arizona
Audit Report No. 1A-10-56-19-009
(Dated September 12, 2019)

Dear Mr. [redacted]:

This is the BlueCross BlueShield of Arizona (Plan) response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP). Our comments concerning the findings in the report are as follows:

Our comments concerning the findings in the report are as follows:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Miscellaneous Income **$33,436**

Recommendation 1

We recommend that the contracting officer require the Plan to return $31,624 to the FEHBP for the questioned miscellaneous income. However, since we verified that the Plan returned $31,624 to the FEHBP for the questioned miscellaneous income, no further action is required for this amount.

Plan Response:

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

Recommendation 2

We recommend that the contracting officer require the Plan to return $1,812 to the FEHBP for LII on the questioned miscellaneous income. However, since we verified that the Plan returned $1,812 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response:

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

2. Special Plan Invoices **$26,556**

Recommendation 3

We recommend that the contracting officer require the Plan to return $24,664 to the FEHBP for the questioned SPI's. However, since we verified that the Plan returned $24,664 to the FEHBP for these questioned SPI's, no further action is required for this amount.

Plan Response:

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

Recommendation 4

We recommend that the contracting officer require the Plan to return $1,892 to the FEHBP for the questioned LII on the SPI amounts that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $1,892 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response:

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

B. ADMINISTRATIVE EXPENSES

1. Cost Settlement Adjustment for Quality Improvement Costs $313,631

Recommendation 5

We recommend that the contracting officer disallow $287,563 for quality improvement costs that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $287,563 to the FEHBP for these questioned quality improvement costs, no further action is required for this amount.

Plan Response:

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

Recommendation 6

We recommend that the contracting officer require the Plan to return $26,068 to the FEHBP for LII calculated on the questioned quality improvement cost overcharges. However, since we verified that the Plan subsequently returned $26,068 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response:

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

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 attachment to the Final Audit Report.

Sincerely,

Kim King
Managing Director, Program Assurance

Attachments

Cc: Mary Semma, BCBSAZ

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