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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 PENSION, POST-RETIREMENT BENEFIT,  
AND AFFORDABLE CARE ACT COSTS FOR A SAMPLE  
OF BLUECROSS AND/OR BLUESHIELD COMPANIES**

**Report Number 1A-99-00-18-045**

**August 7, 2019**

# EXECUTIVE SUMMARY

## *Audit of Pension, Post-Retirement Benefit, and Affordable Care Act Costs for a Sample of BlueCross and/or BlueShield Companies*

Report No. 1A-99-00-18-045

August 7, 2019

### Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross and/or BlueShield (BCBS) companies are complying with the provisions of the Federal Employees Health Benefits Act and regulations pertaining to pension, post-retirement benefit, and Affordable Care Act (ACA) costs that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. Specifically, the objective of our focused audit was to determine if the 18 BCBS companies in our sample charged pension, post-retirement benefit, and ACA costs to the FEHBP in accordance with the terms of the contract and applicable laws and/or regulations.

### What did we audit?

Our limited scope focused audit covered pension, post-retirement benefit, and ACA costs that were charged to the FEHBP from 2014 through 2017 for a sample of 18 BCBS companies.



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

### What did we find?

We questioned \$1,138,828 in administrative expense overcharges and lost investment income (LII). The BlueCross BlueShield Association and applicable BCBS companies agreed with all of the questioned amounts. As part of our review, we verified that the BCBS companies subsequently returned these questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- Pension Costs – We determined that three of the BCBS companies in our sample overcharged the FEHBP \$12,250 for pension costs from 2014 through 2017 (\$6,576 by Wellmark BCBS; \$3,740 by Regence BCBS; and \$1,934 by Premera BlueCross). Questioned LII totaled \$596 for these overcharges.
- Post-Retirement Benefit Costs – We determined that BCBS of Michigan overcharged the FEHBP \$178,636 for post-retirement benefit costs in 2016. Questioned LII totaled \$6,206 for these overcharges.
- Affordable Care Act Costs – We determined that eight of the BCBS companies in our sample overcharged the FEHBP \$791,329 for ACA costs from 2014 through 2017. These overcharges to the FEHBP were by Wellmark BCBS, BCBS of Wyoming, Capital BlueCross, BCBS of Hawaii, BCBS of Arkansas, BCBS of Nebraska, BCBS of Mississippi, and BCBS of Kansas. We also determined that Excellus BCBS returned ACA cost overcharges to the FEHBP during the audit scope, but had not calculated and returned applicable LII to the FEHBP. Questioned LII totaled \$72,146 for these exceptions.
- Other Administrative Expense Overcharges – BCBS of Hawaii and Capital BlueCross self-disclosed additional administrative expense overcharges of \$73,007 to the FEHBP for 2014 through 2017, which were not related to pension, post-retirement benefit, and ACA costs (\$41,209 by BCBS of Hawaii and \$31,798 by Capital BlueCross). Questioned LII totaled \$4,658 for these overcharges.

# ABBREVIATIONS

<b>ACA</b>	<b>Affordable Care Act</b>
<b>Association</b>	<b>BlueCross BlueShield Association</b>
<b>BCBS</b>	<b>BlueCross (BC) and/or BlueShield (BS)</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>LII</b>	<b>Lost Investment Income</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>PRB</b>	<b>Post-Retirement Benefit</b>

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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 a sample of 18 BlueCross (BC) and/or BlueShield (BS) (BCBS) companies, pertaining to pension, post-retirement benefit, and Affordable Care Act costs.

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 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. There are 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 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

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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.

reimbursement of local plan payments of FEHBP claims (using computerized system edits), 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 management for the Association and each BCBS company. In addition, working in partnership with the Association, management of each BCBS company is responsible for establishing and maintaining a system of internal controls.

All findings from our previous focused audit of pension and post-retirement benefit costs (Report No. 1A-99-00-14-068 dated November 16, 2015), covering a sample of 24 BCBS plans for 2011 through 2013, have been satisfactorily resolved. However, this is our first focused audit of Affordable Care Act costs.

The results of this audit were discussed with the Association and/or applicable BCBS company officials throughout the audit and at an exit conference on February 14, 2019. 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. Also, additional documentation provided by the Association and/or BCBS companies on various dates through May 21, 2019, was considered in preparing our final report.

## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### **OBJECTIVE**

The objective of this audit was to determine whether the 18 BCBS companies in our sample charged pension, post-retirement benefit, and Affordable Care Act costs to the FEHBP in accordance with the terms of the contract and applicable laws and/or regulations.

### **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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit covered pension, post-retirement benefit, and Affordable Care Act costs from 2014 through 2017 for a judgmentally selected sample of 18 BCBS companies (from a universe of 36 BCBS companies). The sample included Premera BC, Regence BCBS (a multi-plan company with four BCBS plans), and most of the BCBS companies with FEHBP charges of \$400 million or less in contract year 2017 (except for BCBS of Kansas City, BCBS of Western New York, Independence BC, and BCBS of Vermont).<sup>2</sup> For contract years 2014 through 2017, these 18 BCBS companies charged \$65 million, \$5.5 million, and \$507 million to the FEHBP for pension, post-retirement benefit, and Affordable Care Act costs, respectively. Specifically, we reviewed pension, post-retirement benefit, and Affordable Care Act costs to determine if the 18 BCBS companies in our sample charged these costs to the FEHBP in accordance with the contract and applicable laws and/or regulations. The results of our reviews for the sample of 18 BCBS companies were not projected to the universe of all BCBS companies, since we did not use statistical sampling.

We did not consider each BCBS company's internal control structure in planning and conducting our auditing procedures. Our audit approach consisted mainly of substantive tests of transactions

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<sup>2</sup> Our sample consisted of the following BCBS companies: BCBS of Arkansas, BCBS of Hawaii, BC of Idaho, Wellmark BCBS (Iowa/South Dakota), BCBS of Kansas, BCBS of Louisiana, BCBS of Michigan, BCBS of Mississippi, BCBS of Nebraska, Excellus BCBS (New York), BCBS of North Dakota, Regence BCBS (BCBS of Oregon, BCBS of Utah, BS of Idaho, and BS of Washington), Capital BC (Pennsylvania), Triple-S (Puerto Rico), BCBS of Rhode Island, BCBS of South Carolina, Premera BC (Washington/Alaska), and BCBS of Wyoming.



and not tests of controls. Therefore, we do not express an opinion on each BCBS company's system of internal controls taken as a whole.

We also conducted tests to determine whether the BCBS companies 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 that relate to pension, post-retirement benefit, and Affordable Care Act costs. The results of our tests indicate that, with respect to the items tested, the BCBS companies did not fully comply with the provisions of the contract and applicable laws and regulations relative to pension, post-retirement benefit, and Affordable Care Act costs. 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 applicable BCBS companies 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 FEP Director's Office and BCBS companies. 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 objective.

The audit was mostly performed in our offices in Jacksonville, Florida and Cranberry Township, Pennsylvania from October 16, 2018, through February 14, 2019. During our audit fieldwork phase, we also made short on-site visits to Regence BCBS from October 22 through October 24, 2018; Wellmark BCBS from November 6 through November 7, 2018; and BCBS of Michigan from November 14 through November 15, 2018. Throughout the audit process, the FEP Director's Office and BCBS companies generally did a good job providing complete and timely responses to our requests for supporting documentation. We greatly appreciated the cooperation and responsiveness by the FEP Director's Office and BCBS companies during the pre-audit and fieldwork phases of this audit.

## **METHODOLOGY**

We reviewed the BCBS companies' policies, procedures, allocations, calculations, and/or accounting records during our audit of pension, post-retirement benefit, and Affordable Care Act costs. 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 the BCBS companies' charges to the FEHBP for pension, post-retirement benefit, and Affordable Care Act costs.



# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. Pension Costs

\$12,846

Our audit determined that three of the BCBS companies in our sample overcharged the FEHBP \$12,250 for pension costs from 2014 through 2017. These overcharges consisted of \$6,576 by Wellmark BCBS; \$3,740 by Regence BCBS; and \$1,934 by Premera BC. As a result, we are questioning \$12,846 for this audit finding, consisting of \$12,250 for pension cost overcharges and \$596 for applicable lost investment income (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.”

48 CFR 31.205-6(j)(1) states, “Pension plans are normally segregated into two types of plans: defined-benefit and defined-contribution pension plans. The contractor shall measure, assign, and allocate the costs of all defined-benefit and . . . defined-contribution pension plans in compliance with 48 CFR 9904.412 (Cost Accounting Standard for Composition and Measurement of Pension Cost) and 48 CFR 9904.413 (Adjustment and Allocation of Pension Cost). Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j)(1)(i) . . . of this subsection.” Paragraph (j)(1)(i) of this subsection states, “Except for nonqualified pension plans . . . to be allowable in the current year, the contractor shall fund pension costs by the time set for filing of the Federal income tax return or any extension. Pension costs assigned to the current year, but not funded by the tax return time, are not allowable in any subsequent year. For nonqualified pension plans using the pay-as-you-go method, to be allowable in the current year, the contractor shall allocate pension costs in the cost accounting period that the pension costs are assigned.”

FAR limits the amount of pension cost that can be charged to a government contract to the amount of a cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standard (CAS) 412 and 413, whichever is lower.

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, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

For contract years 2014 through 2017, we reviewed the pension costs that were charged to the FEHBP for a sample of 18 BCBS companies. Based on our review of these BCBS companies' pension costs and supporting documentation, we determined that three of these companies (Wellmark BCBS, Regence BCBS, and Premera BC) did not properly charge pension costs to the FEHBP in accordance with the contract and applicable regulations.

The following is a summary of the questioned pension cost overcharges and applicable LII for these three BCBS companies:

<b>BCBS Company</b>	<b>Questioned Overcharges</b>	<b>Questioned LII</b>	<b>Total Questioned</b>
Wellmark BCBS	\$6,576	\$324	\$6,900
Regence BCBS	3,740	272	4,012
Premera BC	1,934	0	1,934
<b>Total</b>	<b>\$12,250</b>	<b>\$596</b>	<b>\$12,846</b>

- For Wellmark BCBS, the company self-disclosed pension cost overcharges of \$6,576 to the FEHBP for 2015 and 2016. The company determined that the pension costs were inadvertently overstated in the cost system for 2015 and 2016, resulting in these overcharges to the FEHBP. Because of the audit, Wellmark BCBS subsequently returned \$6,900 to the FEHBP, consisting of \$6,576 for the pension cost overcharges and \$324 for applicable LII. We reviewed and accepted the company's LII amount.
- For Regence BCBS, we determined that the company overcharged the FEHBP \$3,740 for pension costs in 2016. Specifically, the company did not properly calculate the FEP's allocation percentage for the 2016 pension costs, resulting in these overcharges to the FEHBP. Because of this finding, Regence BCBS subsequently returned \$4,012 to the FEHBP, consisting of \$3,740 for the pension cost overcharges and \$272 for applicable LII (as calculated by the OIG).
- For Premera BC, the company self-disclosed pension costs overcharges of \$1,934 to the FEHBP for 2015 and 2017. The company determined that the actual corporate salary amounts were inadvertently not used to calculate the FEP's allocation percentages for the 2015 and 2017 pension costs, resulting in these overcharges to the FEHBP. Because of the audit, Premera BC subsequently returned \$1,934 to the FEHBP for these pension cost overcharges. We did not question LII on these overcharges since the LII amount is immaterial.

**Three BCBS companies overcharged the FEHBP \$12,250 for pension costs.**

In total, Wellmark BCBS, Regence BCBS, and Premera BC returned \$12,846 to the FEHBP, consisting of \$12,250 for the questioned pension cost overcharges and \$596 for applicable LII on these overcharges.

**Association Response:**

*The Association agrees with the finding and recommendations.*

**OIG Comment:**

As part of our review, we verified that Wellmark BCBS, Regence BCBS, and Premera BC returned \$12,846 to the FEHBP on various dates from August 2018 through March 2019, consisting of \$12,250 for the pension cost overcharges and \$596 for applicable LII.

**Recommendation 1**

We recommend that the contracting officer require the applicable BCBS companies to return \$12,250 to the FEHBP for pension costs that were overcharged to the FEHBP from 2014 through 2017 (\$6,576 by Wellmark BCBS; \$3,740 by Regence BCBS; and \$1,934 by Premera BC). However, since we verified that Wellmark BCBS, Regence BCBS, and Premera BC subsequently returned \$12,250 to the FEHBP for these pension cost overcharges, no further action is required for this questioned amount.

**Recommendation 2**

We recommend that the contracting officer require the applicable BCBS companies to return \$596 to the FEHBP for questioned LII on the pension cost overcharges (\$324 by Wellmark BCBS and \$272 by Regence BCBS). However, since we verified that Wellmark BCBS and Regence BCBS subsequently returned \$596 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## **B. Post-Retirement Benefit Costs**

**\$184,842**

Our audit determined that BCBS of Michigan overcharged the FEHBP \$178,636 for post-retirement benefit (PRB) costs in 2016. As a result, we are questioning \$184,842 for this audit finding, consisting of \$178,636 for PRB cost overcharges and \$6,206 for applicable LII on these overcharges.

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 Carrier should include simple interest from the date due.

48 CFR 31.205-6(o) states, “(1) PRB covers all benefits, other than cash benefits and life insurance benefits paid by pension plans, provided to employees, their beneficiaries, and covered dependents during the period following the employees' retirement. Benefits encompassed include, but are not limited to, postretirement health care; life insurance provided outside a pension plan; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. (2) To be allowable, PRB costs shall be incurred pursuant to law, employer-employee agreement, or an established policy of the contractor, and shall comply with paragraphs . . . of this subsection.”

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.”

**BCBS of Michigan  
overcharged the  
FEHBP \$178,636 for  
post-retirement  
benefit costs.**

In response to our Audit Information Request (during our pre-audit phase), BCBS of Michigan self-disclosed an overcharge of \$178,636 to the FEHBP for PRB costs. This overcharge occurred because the company inadvertently did not update the cost allocation system in 2016 to include year-end accrual entries for PRB costs. As a result, BCBS of Michigan subsequently returned \$184,842 to the FEHBP, consisting of \$178,636 for these PRB cost overcharges and \$6,206 for LII. We reviewed and accepted the company's LII amount.

### **Association Response:**

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

**OIG Comment:**

As part of our review, we verified that BCBS of Michigan returned \$184,842 to the FEHBP on multiple dates in June 2018 and December 2018, consisting of \$178,636 for the questioned PRB cost overcharges and \$6,206 for applicable LII.

**Recommendation 3**

We recommend that the contracting officer require BCBS of Michigan to return \$178,636 to the FEHBP for the questioned PRB cost overcharges. However, since we verified that BCBS of Michigan subsequently returned \$178,636 to the FEHBP for these PRB cost overcharges, no further action is required for this questioned amount.

**Recommendation 4**

We recommend that the contracting officer require BCBS of Michigan to return \$6,206 to the FEHBP for questioned LII on the PRB cost overcharges. However, since we verified that BCBS of Michigan subsequently returned \$6,206 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**C. Affordable Care Act Costs**

**\$863,475**

Our audit determined that eight of the BCBS companies in our sample overcharged the FEHBP \$791,329 for Affordable Care Act (ACA) costs from 2014 through 2017. In addition, another BCBS company returned ACA cost overcharges to the FEHBP during the audit scope, but had not calculated and returned applicable LII to the FEHBP. As a result of these exceptions, we are questioning \$863,475 for this audit finding, consisting of \$791,329 for ACA costs that were overcharged to the FEHBP and \$72,146 for applicable LII on the exceptions.

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 Carrier 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."

Health Insurance Provider (HIP) Fees – From 2014 through 2016, Section 9010 of the ACA imposed an annual fee on health insurers for funding the health insurance exchange subsidies. This yearly fee was based on each health insurer’s share of net premiums written. The Internal Revenue Service calculated the health insurer fee based on a ratio of the health insurer’s net premiums written to the total net premiums written by all health insurance providers (i.e., industry premiums). The ACA required all health insurance providers to collectively contribute \$8 billion in HIP fees for 2014, \$11.3 billion for 2015, and \$11.3 billion for 2016. For 2014 through 2016, the 18 BCBS companies in our sample allocated and charged \$257 million to the FEHBP for these HIP fees. For 2014 through 2017, these companies also calculated and charged \$101 million to the FEHBP for Federal income taxes related to the HIP fees.

Transitional Reinsurance (TR) Fees - From 2014 through 2016, Section 1341 of the ACA provided for a transitional reinsurance program in each State. The reinsurance program imposed an annual fee on health insurers designed to reduce the costs for high-risk enrollees and decrease the premiums for enrollees in the individual market. This yearly fee was based on each health insurer’s enrollment count. Starting in 2014, the Department of Health and Human Services collected these contributions annually from all health insurance issuers and self-insured group health plans. For 2014 through 2016, the 18 BCBS companies in our sample allocated and charged \$102 million to the FEHBP for these TR fees.

Patient-Centered Outcomes Research Institute (PCORI) Fees - Section 6301 of the ACA imposes a fee on health insurance providers to help fund the Patient-Centered Outcomes Research Institute. The PCORI assists individuals in making informed health decisions by advancing the quality and relevance of evidence-based medicine. The PCORI fee is effective for policy or plan years ending on or after October 1, 2012, and before October 1, 2019. The yearly amount of the PCORI fee is equal to the average number of lives covered during the policy or plan year multiplied by a specific dollar amount (e.g., \$2.39 for 2017), as determined by the Secretary of Health and Human Services. For 2014 through 2017, the 18 BCBS companies in our sample allocated and charged \$47 million to the FEHBP for these PCORI fees.

In response to our Audit Information Request (during our pre-audit phase), 8 of the 18 BCBS companies in our sample self-disclosed overcharges of \$791,329 (\$486,490 plus \$298,093 plus \$6,746) to the FEHBP for ACA costs from 2014 through 2017. These self-disclosed overcharges were charged to the FEHBP by Wellmark BCBS, BCBS of Wyoming, Capital BC, BCBS of Hawaii, BCBS of Arkansas, BCBS of Nebraska, BCBS of Mississippi, and BCBS of Kansas. Specifically, six of these eight BCBS companies overcharged the FEHBP \$486,490 for TR fees; two of these eight companies overcharged the FEHBP \$298,093 for

HIP fees; and three of these eight companies overcharged the FEHBP \$6,746 for the PCORI fees. We noted that most of the overcharges occurred because these eight BCBS companies reported more ACA costs in the annual cost submissions than the actual ACA costs incurred; used incorrect membership enrollment counts to calculate the FEP allocation amounts; and/or did not account for prior year adjustments.

In addition, we determined that Excellus BCBS returned 2014 HIP fee overcharges of \$256,470 to the FEHBP in February 2016 (during the audit scope), but had not calculated and returned applicable LII to the FEHBP. Because of our finding, Excellus BCBS subsequently returned LII of \$6,265 to the FEHBP in February 2019.

The following is a summary schedule of the questioned amounts for these ACA cost exceptions:

<b>BCBS Company</b>	<b>TR Fee Overcharges</b>	<b>HIP Fee Overcharges</b>	<b>PCORI Fee Overcharges</b>	<b>Questioned LII</b>	<b>Total Questioned</b>
Wellmark BCBS	\$0	\$268,662	\$1,695	\$19,507	\$289,864
BCBS of Wyoming	149,319	0	0	14,608	163,927
Capital BC	104,209	0	0	7,461	111,670
BCBS of Hawaii	62,549	29,431	469	9,069	101,518
BCBS of Arkansas	92,336	0	0	7,278	99,614
BCBS of Nebraska	75,735	0	0	7,348	83,083
Excellus BCBS	0	0	0	6,265	6,265
BCBS of Mississippi	0	0	4,582	463	5,045
BCBS of Kansas	2,342	0	0	147	2,489
<b>Total</b>	<b>\$486,490</b>	<b>\$298,093</b>	<b>\$6,746</b>	<b>\$72,146</b>	<b>\$863,475</b>

In total, these nine BCBS companies returned \$863,475 to the FEHBP for this audit finding, consisting of \$791,329 (\$486,490 plus \$298,093 plus \$6,746) for the questioned ACA cost overcharges and \$72,146 for applicable LII on the exceptions. We reviewed and accepted the BCBS companies' self-disclosed ACA cost overcharges and applicable LII amounts for the exceptions.



**In total, eight BCBS companies overcharged the FEHBP \$791,329 for ACA costs.**

Based on our review of the ACA costs, we also determined that the other BCBS companies in our sample properly allocated and charged the TR, HIP, and PCORI fees to the FEHBP during the audit scope. Additionally, we determined that all of the BCBS companies in our sample properly allocated and charged the FEHBP for Federal income taxes related to the HIP fees, except for immaterial differences.

**Association Response:**

*The Association agrees with the finding and recommendations.*

**OIG Comment:**

As part of our review, we verified that the applicable BCBS companies returned \$863,475 to the FEHBP on various dates from August 2018 through February 2019, consisting of \$791,329 for the ACA cost overcharges and \$72,146 for applicable LII.

**Recommendation 5**

We recommend that the contracting officer require the applicable BCBS companies to return \$791,329 to the FEHBP for the questioned ACA costs that were overcharged to the FEHBP from 2014 through 2017 (see summary schedule on page 11 for the questioned overcharges by BCBS company). However, since we verified that the applicable companies subsequently returned \$791,329 to the FEHBP for these ACA cost overcharges, no further action is required for this questioned amount.

**Recommendation 6**

We recommend that the contracting officer require the applicable BCBS companies to return \$72,146 to the FEHBP for questioned LII on the ACA cost overcharges and/or exceptions (see summary schedule on page 11 for the questioned LII by BCBS company). However, since we verified that the applicable companies subsequently returned \$72,146 to the FEHBP for the questioned LII, no further action is required for this LII amount.

#### **D. Other Administrative Expense Overcharges**

**\$77,665**

Our audit determined that BCBS of Hawaii and Capital BC overcharged the FEHBP \$73,007 for administrative expenses from 2014 through 2017 that were not related to pension, PRB, and ACA costs. As a result, we are questioning \$77,665 for this audit finding, consisting of \$73,007 for other administrative expense overcharges and \$4,658 for applicable LII on these overcharges.

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 Carrier 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.”

In response to our Audit Information Request (during our pre-audit phase), BCBS of Hawaii and Capital BC self-disclosed additional overcharges of \$73,007 to the FEHBP for other administrative expenses that were not related to pension, PRB, and ACA costs. The following summarizes the exceptions noted:

- BCBS of Hawaii self-disclosed overcharges of \$32,015 to the FEHBP for executive compensation and \$9,194 for Association dues from 2014 through 2017. As a result, BCBS of Hawaii subsequently returned \$44,099 to the FEHBP, consisting of \$41,209 (\$32,015 plus \$9,194) for the administrative expense overcharges and \$2,890 for applicable LII on these overcharges. We reviewed and accepted the company’s LII amount.
- Capital BC self-disclosed overcharges of \$31,798 to the FEHBP for 2016. These overcharges occurred due to a duplicate administrative expense entry in the company’s cost system for general expenses. As a result, Capital BC subsequently returned \$33,566 to the FEHBP, consisting of \$31,798 for the administrative expense overcharges and \$1,768 for applicable LII on these overcharges. We reviewed and accepted the company’s LII amount.

**BCBS of Hawaii and Capital BC overcharged the FEHBP \$73,007 for administrative expenses.**

In total, BCBS of Hawaii and Capital BC returned \$77,665 to the FEHBP for this audit finding, consisting of \$73,007 (\$41,209 plus \$31,798) for the questioned administrative expense overcharges and \$4,658 (\$2,890 plus \$1,768) for applicable LII on these overcharges.

**Association Response:**

*The Association agrees with the finding and recommendations.*

**OIG Comment:**

As part of our review, we verified that BCBS of Hawaii and Capital BC returned \$77,665 to the FEHBP on various dates in December 2018 and January 2019, consisting of \$73,007 for the questioned administrative expense overcharges and \$4,658 for LII on these overcharges.

**Recommendation 7**

We recommend that the contracting officer require the applicable BCBS plans to return \$73,007 to the FEHBP for the questioned administrative expense overcharges (\$41,209 by BCBS of Hawaii and \$31,798 by Capital BC). However, since we verified that BCBS of Hawaii and Capital BC subsequently returned \$73,007 to the FEHBP for these administrative expense overcharges, no further action is required for this questioned amount.

**Recommendation 8**

We recommend that the contracting officer require the applicable BCBS plans to return \$4,658 to the FEHBP for questioned LII on the administrative expense overcharges (\$2,890 by BCBS of Hawaii and \$1,768 by Capital BC). However, since we verified that BCBS of Hawaii and Capital BC subsequently returned \$4,658 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## APPENDIX

April 17, 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  
Audit of Pension, Postretirement, and Affordable Care Act Costs for  
a Sample of BlueCross and/or BlueShield Companies  
Audit Report No. 1A-99-00-18-045 (Dated March 18, 2019)**

Dear Mr. [REDACTED]:

This is the Blue Cross and Blue Shield Association's response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) Pension, Postretirement, and Affordable Care Act Costs for a sample of Blue Cross Blue Shield Plans. Our comments concerning the findings in the report are as follows:

**Pension Costs** **\$12,846**

### Recommendation 1

We recommend that the contracting officer require the applicable BCBS companies to return \$12,250 to the FEHBP for pension costs that were overcharged to the FEHBP from 2014 through 2017 (i.e., \$6,576 by Wellmark BCBS \$3,740 by Regence BCBS; and \$1,934 by Premera BC). However, since we verified that Wellmark BCBS, Regence BCBS, and Premera BC returned \$12,250 to the FEHBP for these pension cost overcharges, no further action is required for this questioned amount.

### BCBSA's Response:

BCBSA agrees with this recommendation and as stated, no further action is required.

## **Recommendation 2**

We recommend that the contracting officer require the applicable BCBS companies to return \$596 to the FEHBP for questioned LII on the pension cost overcharges (i.e., \$324 by Wellmark BCBS and \$272 by Regence BCBS). However, since we verified that Wellmark BCBS and Regence BCBS returned \$596 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### **BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

*Deleted by the OIG – Not Relevant to the Final Report*

## **Post-Retirement Benefit Costs**

**\$184,842**

## **Recommendation 3**

We recommend that the contracting officer require BCBS of Michigan to return \$178,636 to the FEHBP for the questioned PRB cost overcharges. However, since we verified that the plan returned \$178,636 to the FEHBP for these PRB cost overcharges, no further action is required for this questioned amount.

### **BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

## **Recommendation 4**

We recommend that the contracting officer require BCBS of Michigan to return \$6,206 to the FEHBP for questioned LII on the PRB cost overcharges. However, since we verified that the plan returned \$6,206 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### **BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

## **Affordable Care Act Costs**

**\$863,475**

## **Recommendation 5**

We recommend that the contracting officer require the applicable BCBS companies to return \$791,329 to the FEHBP for the questioned ACA costs that were overcharged to

the FEHBP from 2014 through 2017. However, since we verified that the applicable companies returned \$791,329 to the FEHBP for these ACA cost overcharges, no further action is required for this questioned amount.

**BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

**Recommendation 6**

We recommend that the contracting officer require the applicable BCBS companies to return \$72,146 to the FEHBP for questioned LII on the ACA cost overcharges. However, since we verified that the applicable companies returned \$72,146 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

**Other Administrative Expense Overcharges** **\$77,665**

**Recommendation 7**

We recommend that the contracting officer require the applicable BCBS plans to return \$73,007 to the FEHBP for the questioned administrative expense overcharges (\$41,209 by BCBS of Hawaii and \$31,798 by Capital BlueCross). However, since we verified that BCBS of Hawaii and Capital BlueCross returned \$73,007 to the FEHBP for these administrative expense overcharges, no further action is required for this questioned amount.

**BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

**Recommendation 8**

We recommend that the contracting officer require the applicable BCBS plans to return \$4,658 to the FEHBP for questioned LII on the administrative expense overcharges (\$2,890 by BCBS of Hawaii and \$1,768 by Capital BlueCross). However, since we verified that BCBS of Hawaii and Capital BlueCross returned \$4,658 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**BCBSA's Response:**

BCBSA agrees with this recommendation and as stated, no further action is required.

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





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