U.S. OFFICE OF PERSONNEL MANAGEMENT

OFFICE OF THE INSPECTOR GENERAL

OFFICE OF AUDITS

Final Audit Report

Audit of
Blue Shield of California
Oakland, California

Report Number 2022-ERAG-0021

September 26, 2023

EXECUTIVE SUMMARY

Audit of Blue Shield of California

Report No. 2022-ERAG-0021 **September 26, 2023**

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that Blue Shield of California (Plan), Plan code 542, 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 Contract CS 1039.

What did we audit?

Our audit covered miscellaneous health benefit payments and credits, such as refunds and medical drug rebates, and administrative expense charges for contract years 2017 through 2021, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract years 2017 through 2021, and the Plan's Fraud and Abuse Program activities for contract year 2021.

Michael R. Esser
Assistant Inspector General
for Audits

What did we find?

We questioned $5,517,874 in health benefit charges, net administrative expense overcharges, cash management activities, and lost investment income (LII). The Blue Cross Blue Shield Association and/or Plan agreed with these questioned amounts. As part of our review, we verified that the Plan subsequently returned all of these questioned amounts to the FEHBP because of the audit.

Our audit results are summarized as follows:

- <u>Miscellaneous Health Benefit Payments and Credits</u> – We questioned $167,080 for cash receipt refunds, $104,149 for special plan invoice amounts pertaining to unallowable interest charges on claim payments, $88,190 for provider offset refunds, $25,098 for medical drug rebates that had not been returned to the FEHBP, $151,414 for claim overpayments that the Plan inappropriately wrote off, and $63,811 for applicable LII calculated on funds that were returned untimely to the FEHBP.
- <u>Administrative Expenses</u> – We questioned $4,912,544 in net administrative expense overcharges and LII, consisting of $2,224,366 for unallowable and/or unallocable costs, $2,210,551 for employee compensation overcharges, $155,257 in net overcharges for Blue Cross Blue Shield Association dues, and $322,370 for applicable LII on these questioned charges.
- <u>Cash Management</u> – We questioned interest income of $5,588 that the Plan had not returned to the FEHBP as of December 31, 2021. This questioned interest income was earned on funds held in the Plan's dedicated Federal Employee Program investment account from April 2019 through September 2019. Except for this questioned interest income, we determined that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations concerning cash management in the FEHBP.
- <u>Fraud and Abuse Program</u> – The Plan is complying with the communication and reporting requirements for fraud and abuse cases set forth in Contract CS 1039 and FEHBP Carrier Letter 2017-13.

ABBREVIATIONS

Association	**Blue Cross Blue Shield Association**
BCBS	**Blue Cross and/or Blue Shield**
BCBSA	**Blue Cross Blue Shield Association**
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**
LOCA	**Letter of Credit Account**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
OSA	**Out-of-System Adjustment**
Plan	**Blue Shield of California**
SIU	**Special Investigations Unit**
SPI	**Special Plan Invoice**

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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 Blue Shield of California (Plan). The Plan is located in Oakland, California.

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 Blue Cross Blue Shield Association (Association or BCBSA), on behalf of participating local Blue Cross and/or Blue Shield (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 34 BCBS companies participating in the FEHBP. These 34 companies include 60 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 the Service Benefit Plan Administrative Services Corporation, an affiliate of CareFirst BCBS, located in Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf of BCBS plans, approving or disapproving the reimbursement of local plan payments of FEHBP claims (using computerized system edits), maintaining a history file of FEHBP claims, and maintaining claims payment data.

[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, annuitants, and eligible family members.

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, the Plan's management is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of the Plan (Report No. 1A-10-67-17-021, dated March 29, 2018), covering contract year 2011 through September 30, 2016, 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 March 2, 2023; and were presented in detail in a draft report, dated April 25, 2023. The Association's and Plan'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 health 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 laws and 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.

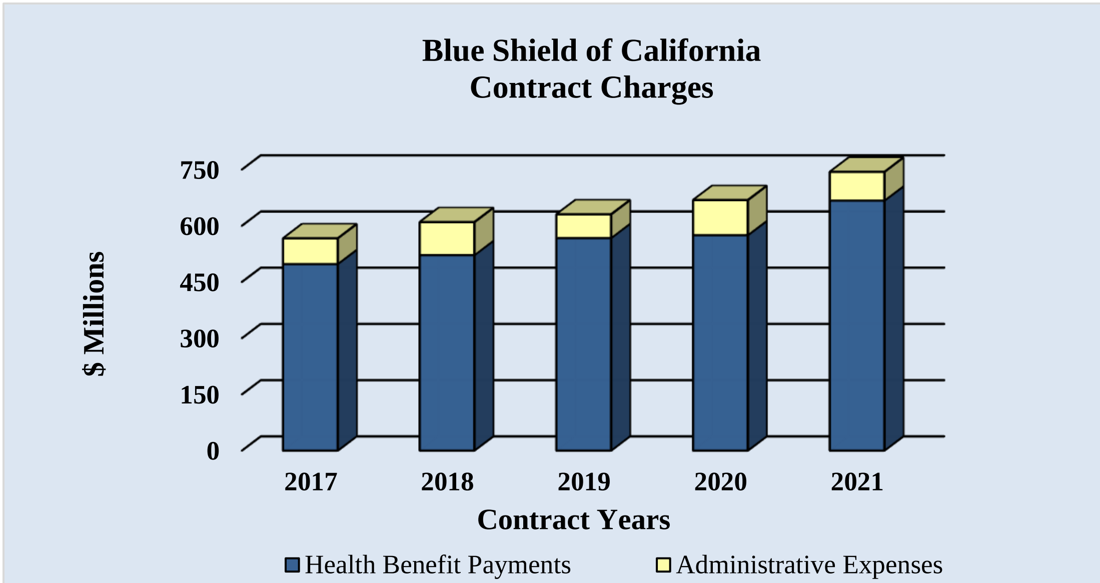
Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and FEHBP 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 Blue Cross and Blue Shield FEHBP Annual Accounting Statements pertaining to Plan code 542 for contract years 2017 through 2021. During this five-year period, the Plan paid approximately $2.8 billion in FEHBP health benefit payments and charged the FEHBP approximately $390 million in administrative expenses (see chart on the next page).



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash receipt and provider offset refunds, medical drug rebates, and special plan invoices) and administrative expense charges for contract years 2017 through 2021. We also reviewed the Plan's cash management activities and practices related to FEHBP funds for contract years 2017 through 2021, and the Plan's Fraud and Abuse Program activities for contract year 2021.

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.

Due to COVID-19 travel restrictions, the audit fieldwork was performed remotely as a desk audit in our Cranberry Township, Pennsylvania and Washington, D.C. offices from August 16, 2022, through March 2, 2023. Throughout the audit process, the Plan did a great job providing complete and timely responses to our numerous requests for explanations and supporting documentation. We 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 contract years 2017 through 2021, we judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds[2]

- A high dollar sample of 125 FEP cash receipt health benefit refunds, totaling $12,323,184 (from a universe of 56,300 FEP cash receipt refunds, totaling $29,986,311 for the audit scope). Our sample consisted of the 25 highest dollar cash receipt refunds from each year of the audit scope, which included refunds from $10,583 to $1,151,332.

- A high dollar sample of 50 FEP health benefit refunds returned via provider offsets, totaling $559,454 (from a universe of 68,207 FEP refunds returned via provider offsets, totaling $14,434,479 for the audit scope). Our sample consisted of the 10 highest dollar provider offsets from each year of the audit scope, which included offsets from $4,257 to $106,479.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of 19 FEP medical drug rebate amounts, totaling $1,880,214 (from a universe of 168 FEP medical drug rebate amounts, totaling $3,586,216 for the audit scope). Our sample consisted of the highest dollar medical drug rebate amount from each of the 19 quarters in the audit scope where the Plan received and/or returned medical drug rebates to the FEHBP. The sample included medical drug rebate amounts from $21,008 to $189,042.

- A judgmental sample of 27 FEP fraud recoveries, totaling $255,985 (from a universe of 72 FEP fraud recoveries, totaling $457,382 for the audit scope). Our sample included the highest dollar fraud recovery from each year of the audit scope and 22 additional fraud

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

recoveries that the Plan identified as potential exceptions when responding to our pre-audit standard information request and providing this fraud recovery universe to us.

- A judgmental sample of 20 FEP claim overpayment write-offs, totaling $100,012 (from a universe of 432 FEP claim overpayment write-offs, totaling $226,642 for the audit scope). Our sample included the 20 highest dollar overpayment write-offs from the audit scope. We reviewed these claim overpayment write-offs to determine if the Plan made diligent efforts to recover the applicable funds before writing these overpayments off.

- A judgmental sample of 4 special plan invoices (SPI) for miscellaneous health benefit payments and credits, totaling $2,893,154 in net FEP payments (from a universe of 24 SPIs, totaling $1,007,859 in net FEP payments for the audit scope). We judgmentally selected these SPIs based on our nomenclature review of high dollar invoice amounts. Specifically, we selected two SPIs with the highest dollar payment amounts and two SPIs with the highest dollar credit amounts (excluding SPIs for medical drug rebates) from the audit scope. SPIs 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.

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 2017 through 2021. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; account payable transactions; allocations; pensions; post-retirement benefits; employee compensation limits; Association dues; lobbying; non-recurring items/projects; and Patient Protection and Affordable Care Act fees.[3] 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.

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[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. For contract years 2017 through 2021, the Plan allocated administrative expenses of $535,344,467 (before adjustments) to the FEHBP, from 555 cost centers that contained 115 natural accounts. From this universe, we selected a judgmental sample of 71 cost centers to review, which totaled $359,940,806 in expenses allocated to the FEHBP. We also selected a judgmental sample of 40 natural accounts to review, which totaled $412,979,171 in expenses allocated to the FEHBP through the cost centers. For contract year 2021, we additionally reviewed a sample of 118 accounts payable transactions that were judgmentally selected from cost centers and natural accounts that were charged to the FEHBP. 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, natural accounts, and accounts payable transactions based on high dollar amounts, our nomenclature review, and/or our trend analysis. We reviewed the expenses from these cost centers, natural accounts, and accounts payable transactions 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.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, United States Department of Treasury offsets, and interest income transactions for contract years 2017 through 2021, as well as the Plan's dedicated FEP investment account activity during the scope and balance as of December 31, 2021. As part of our testing, we selected and reviewed a judgmental sample of 60 LOCA drawdowns, totaling $309,275,858 (from a universe of 1,199 LOCA drawdowns, totaling $2,766,528,323 for contract years 2017 through 2021), for the purpose of determining if the Plan's drawdowns were appropriate and adequately supported. Our sample included the highest dollar LOCA drawdown from each month in the audit scope. The sample results were not projected to the universe of LOCA drawdowns, since we did not use statistical sampling.

We also interviewed the Plan's Special Investigations Unit regarding the compliance of the Fraud and Abuse Program, as well as reviewed the Plan's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and FEHBP Carrier Letter 2017-13.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds – Cash Receipts $178,210

Our audit determined that the Plan had not returned 20 health benefit refunds and recoveries, totaling $167,080, to the FEHBP as of December 31, 2021. The Plan subsequently returned these questioned health benefit refunds and recoveries to the FEHBP in August 2022 and September 2022, ranging from 131 to 1,770 days late, after receiving our audit notification letter, and/or because of our audit. Also, the Plan untimely returned 23 health benefit refunds and recoveries, totaling $1,344,242, to the FEHBP during the audit scope. Since the Plan returned these 23 health benefit refunds and recoveries to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. As a result, we are questioning $178,210 for this audit finding, consisting of $167,080 for the questioned health benefit refunds and recoveries and $11,130 for applicable LII on health benefit refunds and recoveries that were returned untimely to the FEHBP.

Contract CS 1039, Part II, Section 2.3 (i) states, "All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier."

FAR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury . . . which is applicable to the period in which the amount becomes due, . . . and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

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

Health Benefit Refunds – Cash Receipts

The Plan provided a consolidated universe of FEP cash receipt health benefit refunds that included items such as solicited and unsolicited refunds (claim overpayment recoveries), subrogation recoveries, and provider audit recoveries. For contract years 2017 through 2021, there were 56,300 FEP cash receipt health benefit refunds, totaling $29,986,311. From this universe, we selected and reviewed a high dollar sample of 125 cash receipt refunds, totaling $12,323,184, to determine if the Plan timely returned these refunds to the FEHBP. Our sample consisted of the 25 highest dollar cash receipt refunds from each year of the audit scope, which included refunds from $10,583 to $1,151,332.

Based on our review, we noted the following cash receipt refund exceptions in our sample:

- The Plan had not returned two health benefit refunds, totaling $57,531, to the FEHBP as of December 31, 2021. The Plan subsequently returned these questioned refunds to the FEHBP in August 2022 and September 2022. We noted that these two refunds were returned to the FEHBP 1,022 and 1,770 days late, after receiving our audit notification letter (dated January 3, 2022), and/or because of our audit (after receiving our sample). Therefore, we are questioning these two refunds as monetary findings as well as applicable LII of $5,469 on these refunds that were subsequently returned untimely to the FEHBP (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. We also verified that the Plan subsequently returned this questioned LII of $5,469 to the FEHBP in September 2022.

- The Plan returned 17 health benefit refunds, totaling $1,223,998, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these refunds into the dedicated FEP investment account from 12 to 720 days late. Since the Plan returned these refunds to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. However, since these health benefit refunds were deposited untimely into the Plan's dedicated FEP investment account, we are questioning LII of $1,413 that we calculated on 14 of these refunds where the Plan had not previously calculated and returned LII to the FEHBP as of December 31, 2021. We verified that the Plan subsequently returned this questioned LII of $1,413 to the FEHBP in January 2023.

<u>*Fraud Recoveries – Cash Receipts*</u>

For contract years 2017 through 2021, there were 72 FEP fraud recoveries totaling $457,382. From this universe, we selected and reviewed a judgmental sample of 27 fraud recoveries, totaling $255,985, for the purpose of determining if the Plan timely returned these recoveries to the FEHBP. Our sample included the highest dollar fraud recovery from each year of the audit scope. Also, our sample included 22 fraud recoveries that the Plan identified as potential exceptions when responding to our pre-audit standard information request and providing the fraud recovery universe to us.

Based on our review, we identified the following fraud recovery exceptions in our sample:

- The Plan had not returned 18 fraud recoveries, totaling $109,549, to the FEHBP as of December 31, 2021. The Plan subsequently returned these questioned fraud recoveries to the FEHBP in August 2022 and September 2022, ranging from 131 to 1,756 days late, after receiving our audit notification letter (dated January 3, 2022), and/or because of our audit. Therefore, we are questioning these 18 fraud recoveries as monetary findings, as well as applicable LII of $4,216 on these recoveries that were subsequently returned untimely to the FEHBP (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. We also verified that the Plan subsequently returned this questioned LII of $4,216 to the FEHBP from August 2022 through December 2022.

- The Plan returned six fraud recoveries, totaling $120,244, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these fraud recoveries into the dedicated FEP investment account from 4 to 176 days late. Since the Plan returned these recoveries to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. However, since these fraud recoveries were deposited untimely into the Plan's dedicated FEP investment account, we are questioning LII of $32 that we calculated on one of these recoveries where the Plan had not previously calculated and returned LII to the FEHBP as of December 31, 2021. We verified that the Plan subsequently returned this questioned LII of $32 to the FEHBP in January 2023.

Summary of Exceptions

The Plan had not returned 20 health benefit refunds and recoveries, totaling $167,080, to the FEHBP as of December 31, 2021.

In total, the Plan subsequently returned $178,210 to the FEHBP for this audit finding, consisting of $167,080 ($57,531 plus $109,549) for the 20 (2 plus 18) questioned health benefit refunds and recoveries and $11,130 ($5,469 plus $1,413 plus $4,216 plus $32) for applicable LII calculated on health benefit refunds and recoveries that were returned untimely to the FEHBP.

Recommendation 1

We recommend that the contracting officer require the Plan to return $167,080 to the FEHBP for the questioned health benefit refunds and recoveries. However, since we verified that the Plan subsequently returned $167,080 to the FEHBP for the questioned health benefit refunds and recoveries, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $11,130 to the FEHBP for the questioned LII on health benefit refunds and recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $11,130 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 3

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that cash receipt health benefit refunds and recoveries are timely returned to the FEHBP (i.e., deposited into the FEP investment account within 30 days after receipt and returned to the LOCA via drawdown adjustments within 60 days after receipt).

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. For the procedural recommendation, the Association will work with the Plan to provide documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that health benefit refunds and recoveries are timely returned to the FEHBP. The Association will provide the supporting documentation for the corrective actions when responding to the final report.

2. Claim Overpayment Write-offs $169,806

Our audit determined that the Plan inappropriately wrote off 293 FEP claim overpayments totaling $151,414. Specifically, the Plan discontinued recovery efforts for these claim overpayments after negotiating a financial settlement with a health care provider. However, the Plan did not share the funds recovered from this financial settlement with the FEHBP before writing off these claim overpayments. As a result, we are questioning $169,806 for this audit finding, consisting of $151,414 for 293 FEP claim overpayment write-offs and $18,392 for applicable LII on these questioned write-offs.

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.”

Contract CS 1039, Part II, Section 2.3(g) states, “If the Carrier [or OPM] determines that a Member’s claim has been paid in error for any reason . . . the Carrier shall make a prompt and diligent effort to recover the erroneous payment to the member from the member or, if to the provider, from the provider.” Section 2.3(g) also states, “Prompt and diligent effort to recover erroneous payments means that upon discovering that an erroneous payment exists, the Carrier shall –

(1) Send a written notice of erroneous payment to the member or provider . . .

(2) After confirming that the debt does exist . . . send follow-up notices . . . at 30, 60 and 90 day intervals, if the debt remains unpaid and undisputed;

(3) The Carrier may offset future Benefits payable . . . to a provider on behalf of the Member to satisfy a debt due under the FEHBP if the debt remains unpaid and undisputed for 120 days after the first notice . . .

(4) After applying the first three steps, refer cases when it is cost effective to do so to a collection attorney or a collection agency if the debt is not recovered; . . .

(5) Make prompt and diligent efforts to recover erroneous payments until the debt is paid in full or determined to be uncollectible by the Carrier because it is no longer cost effective to pursue further collection efforts or it would be against equity and good conscience to continue collection efforts;

(6) Additional prompt and diligent efforts are required for significant claim overpayments that exceed $10,000 per each claim. Examples of such efforts include copies of dated notices, offset attempt(s) made, certified letter communication(s), and third-party collection efforts to the extent required under (g)(4) above. The Carrier should maintain and provide to OPM upon request, documentation of those efforts."

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 inappropriately wrote off 293 FEP claim overpayments totaling $151,414.

For contract years 2017 through 2021, there were 432 FEP claim overpayment write-offs, totaling $226,642. From this universe, we selected and reviewed 20 of these FEP claim overpayment write-offs, totaling $100,012, to determine if the Plan made prompt and diligent efforts to recover the applicable funds before writing these overpayments off. Our sample included the 20 highest dollar claim overpayment write-offs from the audit scope. Due to the significant number of exceptions identified during our initial review, we expanded our testing and selected an additional 278 claim overpayment write-offs, totaling $85,682, to review. Our expanded review consisted of all claim overpayments that were inappropriately written off because of a financial settlement with one of the Plan's health care providers.

Based on our review, we determined that the Plan incorrectly wrote off 293 FEP claim overpayments, totaling $151,414. All of these claim overpayments were paid to the same health care provider. The Plan wrote off these claim overpayments because the Plan negotiated a financial settlement (calculated using non-FEP facility claim overpayments and underpayments) with this provider and agreed to discontinue recovery efforts of all past claim overpayments for all lines-of-business, including the FEP. Although the Plan benefited from this financial settlement, the Plan did not share this settlement with the FEHBP. Therefore, the Plan should not have written off these 293 FEP claim overpayments. As a result of our audit finding, the Plan subsequently returned $169,806 to the FEHBP, consisting of $151,414 for the 293 questioned FEP claim overpayment write-offs and $18,392 for applicable LII on these write-offs (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

We also noted during our review that the Plan timely mailed the initial erroneous payment notices and the 30, 60 and 90-day follow-up refund request letters for the claim overpayments in our sample, as required in Section 2.3(g)(2) of Contract CS 1039. However, the Plan only maintained copies of the initial erroneous payment notices. For the follow-up refund request letters, the Plan only recorded the letter dates in the overpayment recovery tracking worksheet. Although we accepted the Plan's tracking worksheet as support for the follow-up refund request letters, maintaining copies of these letters would better support the Plan's recovery efforts before writing off the FEP claim overpayments, and avoid a potential future audit finding for not maintaining adequate documentation to support the Plan's prompt and diligent recovery efforts.

Recommendation 4

We recommend that the contracting officer require the Plan to return $151,414 to the FEHBP for the questioned claim overpayments that were inappropriately written off. However, since we verified that the Plan subsequently returned $151,414 to the FEHBP for these questioned claim overpayment write-offs, no further action is required for this amount.

Recommendation 5

We recommend that the contracting officer require the Plan to return $18,392 to the FEHBP for LII calculated on the questioned claim overpayments write-offs. However, since we verified that the Plan subsequently returned $18,392 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 6

If the Plan continues the practice of writing off FEP claim overpayments when entering into a financial settlement with a health care provider, then we recommend that the contracting officer require the Plan to share the financial settlement with the FEHBP, before writing off the applicable claim overpayments.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. The Association also states that, when applicable, the Plan will return FEP claim overpayments that are recovered as part of a financial settlement.

3. Special Plan Invoices – Unallowable Interest Charges $123,086

The Plan had not returned special plan invoice (SPI) amounts, totaling $104,149, to the FEHBP for unallowable interest charges that were assessed on FEP claim payments processed late from July 2021 through December 2022. As a result of our audit, the Plan subsequently returned these unallowable interest charges to the FEHBP in May 2022 and March 2023. Also, although the Plan properly submitted SPIs from December 2018 through September 2021 to return $478,706 to the FEHBP for unallowable interest charges that were assessed on FEP claim payments processed late from January 2016 through June 2021, the Plan had not calculated and returned applicable LII to the FEHBP on these unallowable charges. Since the Plan returned these unallowable interest charges to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. However, we are questioning $123,086 for this audit finding, consisting of $104,149 for the questioned unallowable interest charges and $18,937 for applicable LII on unallowable interest charges.

Fines, penalties, interest expenses, and other financial costs are generally unallowable and should be excluded from costs charged to the FEHBP. 48 CFR 31.205-15(a), states, “Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer." Also, 48 CFR 31.205-20, states, "Interest on borrowings (however represented) . . . are unallowable."

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the dedicated FEP investment account within 30 days and returned to the LOCA 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.

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

For contact years 2017 through 2021, there were 24 SPIs, totaling $1,007,859 in net FEP payments, for miscellaneous health benefit payments and credits. From the universe, we selected and reviewed a judgmental sample of four SPIs, totaling $2,893,154 in net FEP payments, to determine if the Plan properly calculated, charged and/or credited these SPI amounts to the FEHBP. Our sample included two SPIs with the highest dollar payment amounts and two SPIs with the highest dollar credit amounts from the audit scope (excluding SPIs for medical drug rebates).

The Plan had not returned SPI amounts, totaling $104,149, to the FEHBP for unallowable interest charges.

During our SPI review, we were informed that the Plan is contractually obligated to pay interest charges on late claim payments remitted to one of the Plan's health care providers. Since the claim payments to this provider include comingled amounts for allowable health benefit charges and unallowable interest charges, the Plan is required to timely return the unallowable interest charges to the FEHBP via the SPI process, after receiving reimbursement of the claim payments from the LOCA.

Based on our review of the four SPIs in our sample, we determined that the Plan processed two of these SPIs to return $268,225 to the FEHBP in December 2018 for unallowable interest charges that were assessed on FEP claim payments that were paid from January 2017 through September 2018, but had not returned applicable LII to the FEHBP on these unallowable interest charges. Since the Plan returned these unallowable interest charges to the FEHBP during the audit scope and prior to receiving our audit notification letter (dated January 3, 2022), we did not question this principal amount as a monetary finding. However, since the Plan had not returned LII on these two SPIs for the unallowable interest charges, we are questioning $10,241 for LII calculated on these SPIs where the Plan had not previously calculated and returned applicable LII to the FEHBP. As part of our review, we verified that the Plan subsequently returned this questioned LII of $10,241 to the FEHBP in March 2023.

Since interest charges on FEP claim payments are unallowable, we expanded our review to include similar SPIs to determine if the Plan had returned all interest charges and applicable LII to the FEHBP. Our expanded SPI review covered these unallowable interest charges that were assessed on FEP claim payments processed from January 2016 through December 2022 (excluding the two SPIs in our sample). Based on our expanded testing, we identified the following exceptions:

- The Plan charged the FEHBP for unallowable interest charges, totaling $210,482, on FEP claim payments that were processed late in 2016 and from October 2018 through June 2021. The Plan returned these unallowable interest charges to the FEHBP on various dates from December 2018 through November 2021 via six SPI credit amounts. Since the Plan returned these unallowable claim interest charges to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. However, since the Plan had not returned LII on these six SPIs for the unallowable interest charges, we are questioning $5,875 for LII calculated on these SPIs where the Plan had not previously calculated and returned applicable LII to the FEHBP. As part of our review, verified that the Plan subsequently returned this questioned LII of $5,875 to the FEHBP in March 2023.

- The Plan also charged the FEHBP for unallowable interest charges, totaling $104,149, on FEP claim payments that were processed late from July 2021 through December 2022, but had not processed the applicable SPI credit amounts to return these unallowable interest charges to the FEHBP. Therefore, we are questioning these unallowable claim interest charges as monetary findings as well as applicable LII of $2,821 on these unallowable charges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. As part of our review, we verified that the Plan subsequently returned $106,970 to the FEHBP in May 2022 and March 2023, consisting of $104,149 for these unallowable claim interest charges and $2,821 for applicable LII on these unallowable charges.

In total, the Plan subsequently returned $123,086 to the FEHBP for this audit finding, consisting of $104,149 for the questioned unallowable claim interest charges and $18,937 ($10,241 plus $5,875 plus $2,821) for applicable LII on unallowable interest charges.

Recommendation 7

We recommend that the contracting officer require the Plan to return $104,149 to the FEHBP for the questioned unallowable interest charges. However, since we verified that the Plan subsequently returned $104,149 to the FEHBP for the questioned unallowable interest charges, no further action is required for this amount.

Recommendation 8

We recommend that the contracting officer require the Plan to return $18,937 to the FEHBP for the questioned LII on unallowable interest charges. However, since we verified that the Plan subsequently returned $18,937 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 9

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 unallowable claim interest charges and LII (if applicable) are returned timely to the FEHBP via the SPI process, after receiving the claim payment reimbursements from the LOCA.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. For the procedural recommendation, the Association will work with the Plan to provide documentation demonstrating that the Plan has implemented the necessary corrective actions ensuring that unallowable interest charges and LII are returned timely to the FEHBP via the SPI process, after the Plan receives the claim payment reimbursement from the LOCA. The Association will provide the supporting documentation for the corrective actions when responding to the final report.

4. Health Benefit Refunds – Provider Offsets $100,240

Our audit determined that the Plan had not returned provider offset refunds, totaling $88,190, to the FEHBP as of December 31, 2021. Specifically, the Plan reduced payments to providers via provider offsets to recover FEP health benefit refunds related to previous claim overpayments but had not returned these refunds to the FEHBP. As a result of our audit, the Plan subsequently returned $100,240 to the FEHBP, consisting of $88,190 for the questioned provider offset refunds and $12,050 for applicable LII on these questioned refunds.

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."

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the dedicated FEP investment account within 30 days and returned to the LOCA 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.

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."

For contract years 2017 through 2021, there were 68,207 health benefit refunds, totaling $14,434,479, that potentially were returned to the FEHBP via the Plan's provider offset process (based on the Plan's universe file of provider offset refunds). From this universe, we selected and reviewed a judgmental sample of 50 provider offset refunds, totaling $559,454, to determine if the Plan timely returned these refunds to the FEHBP. Our sample consisted of the 10 highest dollar provider offset refunds from each year of the audit scope, which included offset refunds from $4,257 to $106,479. Provider offsets occur when the Plan reduces payments to participating providers for the purpose of recovering refunds related to previous claim overpayments.

Based on the Plan's provider offset process, we noted that some of the provider offsets that were made to recover FEP refunds were offset against non-FEP claim payments. Therefore, this process also required the Plan to make corporate fund transfers into the Plan's FEP investment account and then LOCA drawdown adjustments to return the provider offset refunds to the FEHBP. In contrast, when the Plan made provider offsets to recover FEP refunds against FEP claim payments, there was no need for the Plan to transfer corporate funds into the FEP investment account and make LOCA drawdown adjustments, since these offsets directly reduced the FEP check payment amounts and the Plan withdrew these funds from the LOCA on a checks-presented basis.

Based on our review of the sample, we determined that the Plan had not returned three provider offset refunds, totaling $15,899, to the FEHBP as of December 31, 2021, that were recovered through the Plan's provider offset process. These exceptions occurred because the Plan processed these provider offsets to reduce claim overpayments against non-FEP claim payments but had not transferred the applicable corporate funds into the Plan's FEP investment account and adjusted the LOCA drawdowns to return these refunds to the FEHBP. In addition, we determined that these exceptions were included in a batch of provider offset refunds, totaling $88,190, that were not previously returned to the FEHBP. Therefore, we are questioning all of these offset refunds, totaling $88,190, that the Plan had not returned to the FEHBP as of December 31, 2021.

In total, the Plan subsequently returned $100,240 to the FEHBP for this audit finding, consisting of $88,190 for the questioned provider offset refunds and $12,050 for applicable LII on these questioned refunds (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Recommendation 10

We recommend that the contracting officer require the Plan to return $88,190 to the FEHBP for the questioned provider offset refunds. However, since we verified that the Plan subsequently returned $88,190 to the FEHBP for these questioned refunds, no further action is required for this amount.

Recommendation 11

We recommend that the contracting officer require the Plan to return $12,050 to the FEHBP for LII calculated on the questioned provider offset refunds. However, since we verified that the Plan subsequently returned $12,050 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 12

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 provider offset refunds against non-FEP claim payments are properly processed and returned to the FEHBP.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. For the procedural recommendation, the Association will work with the Plan to provide documentation demonstrating that the Plan has implemented the necessary corrective actions ensuring that provider offsets against non-FEP claim payments are properly processed and returned to the FEHBP. The Association will provide the supporting documentation for the corrective actions when responding to the final report.

5. Medical Drug Rebates $28,400

Our audit determined that the Plan had not returned two medical drug rebate amounts, totaling $25,098, to the FEHBP as of December 31, 2021. The Plan subsequently returned these questioned medical drug rebates to the FEHBP in January 2023, over 5 ½ years late and because of our audit. As a result, we are questioning $28,400 for this audit finding, consisting of $25,098 for these questioned medical drug rebates and $3,302 for LII on these medical drug rebates returned untimely to the FEHBP.

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."

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the dedicated FEP investment account within 30 days and returned to the LOCA 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.

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 participates 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. The Plan receives medical drug rebates multiple times a year (usually on a quarterly basis) and credits them to the participating groups, including the FEP.

For contract years 2017 through 2021, the Plan received 168 FEP medical drug rebate amounts, totaling $3,586,216, from various drug manufacturers. From this universe, we selected and reviewed a high dollar sample of 19 FEP medical drug rebate amounts, totaling $1,880,214, for the purpose of determining if the Plan timely returned these rebate amounts to the FEHBP. Our sample consisted of the highest dollar medical drug rebate amount from each of the 19 quarters in the audit scope where the Plan received and/or returned medical drug rebates to the FEHBP. The sample included medical drug rebate amounts from $21,008 to $189,042.

Based on our review, we determined that the Plan had not fully returned two medical drug rebate amounts to the FEHBP as of December 31, 2021. Specifically, the Plan inadvertently returned $67,732 to the FEHBP for two medical drug rebate amounts instead of the actual FEP calculated rebate amounts of $92,830. As a result, the Plan should have returned an additional $25,098 ($92,830 less $67,732) to the FEHBP for these two medical drug rebate amounts. The Plan subsequently returned these additional medical drug rebate amounts to the FEHBP on January 12, 2023, over 5 ½ years late, after receiving our audit notification letter (dated January 3, 2022), and because of our audit. Therefore, we are questioning these two exceptions as monetary findings as well as applicable LII of $3,302 on these medical drug rebates that were subsequently returned untimely to the FEHBP (as calculated by the OIG).

In total, the Plan subsequently returned $28,400 to the FEHBP for this audit finding, consisting of $25,098 for the questioned medical drug rebates and $3,302 for applicable LII calculated on these medical drug rebates that were returned untimely to the FEHBP.

Recommendation 13

We recommend that the contracting officer require the Plan to return $25,098 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan subsequently returned $25,098 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

Recommendation 14

We recommend that the contracting officer require the Plan to return $3,302 to the FEHBP for the questioned LII calculated on the medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $3,302 to the FEHBP for the questioned LII, no further action is required for this amount.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations.

B. ADMINISTRATIVE EXPENSES

1. Unallowable and/or Unallocable Costs $2,379,041

The Plan charged $2,224,366 in unallowable and/or unallocable costs to the FEHBP for contract years 2017 through 2021. As a result of this audit finding, the Plan subsequently returned $2,379,041 to the FEHBP, consisting of $2,224,366 for unallowable and/or unallocable charges and $154,675 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 31.201-4 states, "A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it –

(a) Is incurred specifically for the contract;

(b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or

(c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown."

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

For contract years 2017 through 2021, the Plan charged unallowable and/or unallocable costs of $2,224,366 to the FEHBP.

For contract years 2017 through 2021, the Plan allocated administrative expenses of $535,344,467 (before adjustments) to the FEHBP, from 555 cost centers that contained 115 natural accounts. From this universe, we selected a judgmental sample of 71 cost centers to review, which totaled $359,940,806 in expenses allocated to FEHBP. We also selected a judgmental sample of 40 natural accounts to review, which totaled $412,979,171 in expenses allocated to the FEHBP through the cost centers. For contract year 2021, we also reviewed a sample of 118 accounts payable transactions that were judgmentally selected from cost centers and natural accounts that were charged to the FEHBP. We selected these cost centers, natural accounts, and accounts payable transactions based on high dollar amounts, our nomenclature review, and/or our trend analysis. We reviewed the expenses from these cost centers, natural accounts, and accounts payable transactions for allowability, allocability, and/or reasonableness. Based on our review of these samples, we determined that the Plan charged expenses to the FEHBP from two cost centers (CC), two natural accounts (NA), and 48 accounts payable transactions that were unallowable and/or did not benefit the FEHBP (unallocable).

The following schedule is a summary of the questioned CC and NA costs that were inappropriately charged to the FEHBP for contract years 2017 through 2021.

Questioned Cost Centers and Natural Accounts			
CC or NA Number	**CC or NA Name**	**Amount Questioned**	**Reason Questioned**
CC 1113Q	Underwritten Business Depreciation	$326,774	Unallocable
CC 4150S	Marketing Operations – Labor	297,480	Unallowable
NA 60352	Political Contributions	55,941	Unallowable
NA 65060	Allocated Marketing and Advertising	1,237	Unallowable
Total		**$681,432**	

The following schedule is a summary of the questioned accounts payable transactions that were inappropriately charged to the FEHBP for contract year 2021.

Questioned Accounts Payable Transactions			
Type of Transactions	**Count**	**Amount Questioned**	**Reason Questioned**
Corporate Recovery Fees	38	$91,604	Unallocable
Consulting Services	4	77,370	Unallocable
Digital Team Strategy	1	13,899	Unallocable
Health Solutions	1	10,672	Unallocable
Charitable Contributions	2	7,247	Unallowable
Political Contributions	2	4,322	Unallowable
Total	**48**	**$205,114**	

Due to the significant number and/or dollar amounts of questioned transactions for unallocable corporate recovery fees and consulting services that were allocated and/or charged to the FEHBP for contract year 2021, we expanded our review to include similar types of transactions that were allocated and/or charged to the FEHBP for contract years 2017 through 2020. Based on our expanded review, we determined that the Plan also charged $1,337,820 to the FEHBP for 286 accounts payable transactions that were related to unallocable corporate recovery fees for contract years 2018 through 2020. In addition, we determined that there were no accounts payable transactions for unallocable consulting services that were allocated and/or charged to the FEHBP for contract years 2017 through 2020.

Concerning the questioned costs that were charged to the FEHBP, 48 CFR 31.205-1 (public relations and advertising costs) and 48 CFR 31.205-8 (contributions or donations) provide specific criteria to the extent that such costs are expressly unallowable. In addition, 48 CFR 31.201-4 provides specific criteria to the extent that such costs are unallocable to the FEHBP. Regarding the unallocable corporate recovery fees, these questioned amounts were duplicate charges to the FEHBP since these fees were previously offset against health benefit recoveries where the net recovery amounts were returned to the FEHBP.

As a result of these exceptions, we are questioning $2,379,041 for this audit finding, consisting of $2,224,366 ($681,432 plus $205,114 plus $1,337,820) for unallowable and/or unallocable costs that were inappropriately charged to the FEHBP and $154,675 for applicable LII on these questioned charges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Recommendation 15

We recommend that the contracting officer disallow $2,224,366 for unallowable and/or unallocable costs that were charged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned $2,224,366 to the FEHBP for these questioned charges, no further action is required for this amount.

Recommendation 16

We recommend that the contracting officer require the Plan to return $154,675 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable charges. However, since we verified that the Plan subsequently returned $154,675 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 17

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 unallowable and/or unallocable costs are not charged to the FEHBP.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. For the procedural recommendation, the Association will work with the Plan to provide documentation demonstrating that the Plan has implemented the necessary corrective actions ensuring that unallowable and/or unallocable costs are not charged to the FEHBP. The Association will provide the supporting documentation for the corrective actions when responding to the final report.

2. Employee Compensation Overcharges $2,370,668

Our audit determined that the Plan overcharged the FEHBP $2,210,551 for employee compensation costs in contract years 2017 through 2021. As a result of this audit finding, the Plan subsequently returned $2,370,668 to the FEHBP, consisting of $2,210,551 for employee compensation overcharges and $160,117 for applicable LII on these questioned overcharges.

48 CFR 31.205-6(p) limits the allowable compensation costs for senior executives to a benchmark amount established each year by the Office of Federal Procurement Policy. Starting in 1999, this limit is applicable to the five most highly compensated employees in management positions at each home office and each segment of the Plan, whether or

not the home office or segment reports directly to the Plan's headquarters. As of June 24, 2014, this limit is applicable to all contractor employees whose compensation met the compensation limit. The benchmark compensation amounts were $512,000 in 2017, $525,000 in 2018, $540,000 in 2019, $555,000 in 2020, and $568,000 in 2021.

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

For contract years 2017 through 2021, the Plan overcharged the FEHBP $2,210,551 for employee compensation costs.

To determine the allowability of the amounts charged to the FEHBP for employee compensation costs, we reviewed the Plan's allocations for contract years 2017 through 2021 to determine if the employee compensation amounts were limited to the benchmark amounts set forth in 48 CFR 31.205-6(p). Specifically, we reviewed documentation supporting the out-of-system adjustments (OSA) that the Plan made during the audit scope to limit employee compensation costs. These OSAs totaled $10,916,384 in FEP cost reductions for contract years 2017 through 2021. Using documentation provided by the Plan, we recalculated these OSAs and determined that the Plan should have made OSAs totaling $13,126,935 in FEP cost reductions, resulting in total overcharges of $2,210,551 ($13,126,935 minus $10,916,384) to the FEHBP.

Based on our OSA recalculations, we determined that the Plan overcharged the FEHBP $2,210,551 for employee compensation costs in contract years 2017 through 2021 ($400,147 in 2017, $538,297 in 2018, $397,343 in 2019, $761,876 in 2020, and $112,888 in 2021). These overcharges to the FEHBP were due to the following reasons:

- The Plan used incorrect benchmark limits for contract years 2017, 2019, and 2020. Specifically, the Plan used benchmark limits of $487,000 in 2017, $525,000 in 2019, and $525,000 in 2020, when the Plan should have used $512,000 in 2017, $540,000 in 2019, and $555,000 in 2020. We used the allowed benchmark limits in our OSA recalculations.

- The Plan used allocation methodologies that were not representative of how the employee compensation costs were originally allocated to the FEP through various cost centers. In our OSA recalculations, we used allocation methodologies that were more reflective of how these costs were originally allocated to the FEP.

- The Plan did not remove all compensation costs for employees performing duties that were unallowable and/or unallocable to the FEP. Therefore, we removed these non-chargeable employee compensation costs from our recalculations. During our review, we also identified similar non-chargeable employee compensation costs for employees not originally factored into calculating these OSAs. Therefore, we also questioned these non-chargeable employee compensation costs.

In total, we are questioning $2,370,668 for this audit finding, consisting of $2,210,551 for employee compensation costs that were overcharged to the FEHBP for contract years 2017 through 2021 and $160,117 for applicable LII on these overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation.

Recommendation 18

We recommend that the contracting officer disallow $2,210,551 for employee compensation costs that were overcharged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned $2,210,551 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 19

We recommend that the contracting officer require the Plan to return $160,117 to the FEHBP for the questioned LII calculated on the employee compensation overcharges. However, since we verified that the Plan subsequently returned $160,117 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 20

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that employee compensation costs are correctly limited and/or charged to the FEHBP.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. For the procedural recommendation, the Association states, "The Plan . . . has updated its training and procedures to calculate an out-of-system adjustment at the employee and cost center level to correctly limit the amount of compensation allocated and/or charged to the FEHBP."

3. Blue Cross Blue Shield Association Dues $162,835

Our audit determined that the Plan overcharged the FEHBP $236,674 for Association dues in contract years 2019 through 2021 and undercharged the FEHBP $81,417 for Association dues in contract years 2017 and 2018. Specifically, the Plan did not exclude non-chargeable Association initiatives from the dues that were charged to the FEHBP. The Plan also did not use updated membership enrollment data when allocating the dues to the FEP. As a result of this audit finding, the Plan subsequently returned $162,835 to the FEHBP, consisting of a net overcharge of $155,257 for Association dues and $7,578 for applicable LII on the 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 Contractor should include simple interest from the date due.

FEP Memorandum Number 20-019 FYI, titled BCBSA Regular Member Plan Dues and Other Assessments: 2015 – 2020 (dated February 3, 2020) and FEP Memorandum Number 22-057 FYI, titled BCBSA Regular Member Plan Dues and Other Assessments: 2017 – 2022 (dated March 15, 2022) provide guidance to the BCBS plans with respect to charging the FEHBP for Association dues. These memorandums also include specific guidance related to the chargeability of Association initiatives to the FEHBP. Based on these memorandums, most of the initiatives are not chargeable to the FEHBP. Additionally, these memorandums provide specific procedures requiring the BCBS plans to use the Association's updated Quarterly Enrollment Reports for allocating chargeable Association dues to the FEP.

To determine the reasonableness, allowability, and allocability of the amounts charged to the FEHBP, we reviewed each contract year within the audit scope and recalculated FEP's share of the Association dues. We used the Association dues invoices, the Plan's allocation support, the FEHBP contract, the Federal regulations, and the above cited memorandums to determine the amounts of Association dues that were chargeable to the FEHBP.

For contract years 2017 through 2021, the Plan overcharged the FEHBP a net amount of $155,257 for Association dues.

Based on our review, we determined that the Plan overcharged the FEHBP a net amount of $155,257 for Association dues in contract years 2017 through 2021. Specifically, the Plan undercharged the FEHBP $81,417 for contract years 2017 and 2018 ($31,985 in 2017 and $49,432 in 2018) and overcharged the FEHBP $236,674 for contract years 2019 through 2021 ($39,037 in 2019, $54,705 in 2020, and $142,932 in 2021). These exceptions occurred because the Plan inadvertently did not exclude non-chargeable Association initiatives from the dues that were charged to the FEHBP for contract years 2017 through 2021. Specifically, the Plan improperly charged the FEHBP for the following non-chargeable Association initiatives: Brand Reputation Policy Influencer Campaign, Medicare National Awareness Campaign, Board Vantage, Center for Clinical Effectiveness, Technology Evaluation Center, and Litigation Assessment Refund. The Plan also inadvertently did not use updated membership enrollment data from the Association's Quarterly Enrollment Reports when calculating FEP's share of Association dues for contract years 2017 through 2021.

In total, we are questioning $162,835 for this audit finding, consisting of a net of $155,257 for Association dues that were overcharged to the FEHBP in contract years 2017 through 2021 ($236,674 for dues overcharged in contract years 2019 through 2021 less $81,417 for dues undercharged in contract years 2017 and 2018) and $7,578 for applicable LII on the overcharges (as calculated by the OIG).

Recommendation 21

We recommend that the contracting officer disallow $236,674 for the Association dues that were overcharged to the FEHBP in contract years 2019 through 2021. However, since we verified that the Plan subsequently returned $236,674 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 22

We recommend that the contracting officer require the Plan to return $7,578 to the FEHBP for the questioned LII calculated on the Association dues that were overcharged to the FEHBP in contract years 2019 through 2021. However, since we verified that the Plan subsequently returned $7,578 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 23

We recommend that the contracting officer allow the Plan to charge the FEHBP $81,417 for the Association dues that were undercharged to the FEHBP in contract years 2017 and 2018. However, since we verified that the Plan subsequently charged $81,417 to the FEHBP for these questioned undercharges, no further action is required for this amount.

Recommendation 24

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 Association dues are properly charged to the FEHBP.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendations. For the procedural recommendation, the Association will work with the Plan to provide documentation demonstrating that the Plan has implemented the necessary corrective actions ensuring that the Association dues are properly charged to the FEHBP. The Association will provide the supporting documentation for the corrective actions when responding to the final report.

C. CASH MANAGEMENT

The audit disclosed no significant findings pertaining to the Plan's cash management activities and practices related to FEHBP funds. Overall, we concluded that the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations concerning cash management in the FEHBP, except as noted in the audit finding for "Interest Income."

1. Interest Income $5,588

Our audit determined that the Plan had not returned interest income of $5,588 to the FEHBP as of December 31, 2021. This interest income was earned on funds held in the Plan's dedicated FEP investment account from April 2019 through September 2019. The Plan subsequently returned this questioned interest income to the FEHBP on April 21, 2022, after receiving our audit notification letter and/or because of our audit.

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

OPM's "Letter of Credit System Guidelines" (dated April 2018) states that "Excess funds must be held in a separate interest-bearing account. The interest earned on these funds must be credited to the FEHB Program, by reducing the amount of a draw, at least on a monthly basis and used by the Carrier to pay only FEHB Program expenses."

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

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

The Plan had not returned interest income of $5,588 to the FEHBP as of December 31, 2021.

For contract years 2017 through 2021, the Plan earned interest income of $78,050 on FEHBP funds in the Plan's dedicated FEP investment account. The Plan returned most of this interest income to the FEHBP during the audit scope. However, after receiving our audit notification (dated January 3, 2022) and/or because of our audit, the Plan subsequently returned $5,588 of this earned interest income to the FEHBP on April 21, 2022. Specifically, we noted that the Plan inadvertently had not returned the interest income to the FEHBP for April 2019 through September 2019. Since the Plan held this questioned interest income in the dedicated FEP investment account, LII is not applicable for this audit finding.

Recommendation 25

We recommend that the contracting officer require the Plan to return $5,588 to the FEHBP for the questioned interest income. However, since we verified that the Plan subsequently returned the questioned interest income of $5,588 to the FEHBP, no further action is required for this amount.

Association/Plan Response:

The Association and/or Plan agree with the finding and recommendation.

D. FRAUD AND ABUSE PROGRAM

The Plan timely entered fraud and abuse cases into the Association's FSTS.

The audit disclosed no findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For contract year 2021, the Plan opened 17 fraud and abuse cases with potential FEP exposure. From this universe, we selected and reviewed all of these cases and determined if the Plan timely entered these fraud and abuse cases into the Association's FEP Special Investigations Unit Tracking System (FSTS) and if the Association timely reported these cases to the OPM OIG.[4] Based on our review, we identified no exceptions with the Plan timely entering cases into the Association's FSTS and the Association timely reporting cases to the OPM OIG. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in Contract CS 1039 and FEHBP Carrier Letter 2017-13.

[4] 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

BLUE SHIELD OF CALIFORNIA
OAKLAND, CALIFORNIA

QUESTIONED CHARGES

AUDIT FINDINGS	2017	2018	2019	2020	2021	2022	2023	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS								
1. Health Benefit Refunds - Cash Receipts*	$44,164	$1,720	$15,635	$2,936	$1,493	$112,262	$0	$178,210
2. Claim Overpayment Write-Offs*	319	154,597	5,257	2,463	1,516	4,273	1,381	169,806
3. Special Plan Invoices - Unallowable Interest Charges*	0	0	0	0	17,382	86,767	18,937	123,086
4. Health Benefit Refunds - Provider Offsets*	89,283	2,707	2,756	1,436	884	2,492	682	100,240
5. Medical Drug Rebates*	25,442	770	783	408	251	708	38	28,400
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$159,208	$159,794	$24,431	$7,243	$21,526	$206,502	$21,038	$599,742
B. ADMINISTRATIVE EXPENSES								
1. Unallowable and/or Unallocable Costs*	$270,173	$515,145	$880,804	$355,061	$281,932	$62,778	$13,148	$2,379,041
2. Employee Compensation Overcharges*	400,147	550,566	426,631	783,605	133,886	62,388	13,445	2,370,668
3. Blue Cross Blue Shield Association Dues*	(31,985)	(49,432)	39,037	55,340	143,869	6,006	0	162,835
TOTAL ADMINISTRATIVE EXPENSES	$638,335	$1,016,279	$1,346,472	$1,194,006	$559,687	$131,172	$26,593	$4,912,544
C. CASH MANAGEMENT								
1. Interest Income	$0	$0	$5,588	$0	$0	$0	$0	$5,588
TOTAL CASH MANAGEMENT	$0	$0	$5,588	$0	$0	$0	$0	$5,588
D. FRAUD AND ABUSE PROGRAM								
TOTAL FRAUD AND ABUSE PROGRAM	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL QUESTIONED CHARGES	$797,543	$1,176,073	$1,376,491	$1,201,249	$581,213	$337,674	$47,631	$5,517,874

* We included lost investment income (LII) within audit findings A1 ($11,130), A2 ($18,392), A3 ($18,937), A4 ($12,050), A5 ($3,302), B1 ($154,675), B2 ($160,117), and B3 ($7,578). Therefore, no additional LII is applicable for these audit findings.

BlueCross BlueShield Association

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June 9, 2023

Mr. John A. Hirschmann, Group Chief
Experience-Rated Audits Group
Office of the Inspector General
U.S. Office of Personnel Management
1900 E Street, Room 6400
Washington, DC 20415-11000

Reference: OPM Draft AUDIT REPORT
Blue Shield California
Audit Report Number 2022-ERAG-0021

Dear Mr. Hirschmann:

This is the Blue Shield of California 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 follow.

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Health Benefit Refunds – Cash Receipts $178,210

Recommendation 1

We recommend that the contracting officer require the Plan to return $167,080 to the FEHBP for the questioned health benefit refunds and recoveries. However, since we verified that the Plan subsequently returned $167,080 to the FEHBP for the questioned health benefit refunds and recoveries, no further action is required for this amount.

Plan Response

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

Recommendation 2

We recommend that the contracting officer require the Plan to return $11,130 to the FEHBP for the questioned LII on health benefit refunds and recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $11,130 to the FEHBP for the questioned Lost Investment Income (LII), no further action is required for this LII amount.

Plan Response

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

Recommendation 3

We recommend that the contracting officer require the Association to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that cash receipt health benefit refunds and recoveries are timely returned to the FEHBP (i.e., deposited into the FEP investment account within 30 days after receipt and returned to the LOCA via drawdown adjustments within 60 days after receipt).

BCBSA Response

BCBSA will work with the Plan to provide evidence and supporting documentation to demonstrate that the Plan has implemented the necessary corrective actions to ensure health benefit refunds and recoveries are returned in a timely manner. BCBSA will provide the support with the response to the Final Report.

2. Claim Overpayment Write-offs **$169,806**

Recommendation 4

We recommend that the contracting officer require the Plan to return $151,414 to the FEHBP for the questioned claim overpayments that were incorrectly written off. However, since we verified that the Plan subsequently returned $151,414 to the FEHBP for these questioned claim overpayment write-offs, no further action is required for this amount.

Plan Response

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

Recommendation 5

We recommend that the contracting officer require the Plan to return $18,392 to the FEHBP for LII calculated on the questioned claim overpayments write-offs. However, since we verified that the Plan subsequently returned $18,392 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 6

If the Plan continues with the practice of writing off FEP claim overpayments when entering a financial settlement with a health care provider, then we recommend that the contracting officer require the Plan to share the financial settlement with the FEHBP, before writing off the applicable claim overpayments.

Plan Response

The Plan agrees with this recommendation and, when applicable, will return FEP claim overpayments recovered as part of financial settlement.

3. Special Plan Invoices – Unallowable Charges $123,086

Recommendation 7

We recommend that the contracting officer require the Plan to return $104,149 to the FEHBP for the questioned unallowable interest charges. However, since we verified that the Plan subsequently returned $104,149 to the FEHBP for the questioned unallowable interest charges, no further action is required for this amount.

Plan Response

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

Recommendation 8

We recommend that the contracting officer require the Plan to return $18,937 to the FEHBP for questioned LII on the unallowable interest charges. However, since we verified that the Plan subsequently returned $18,937 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 9

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 unallowable interest charges and LII (if applicable) are returned timely to the FEHBP via the SPI process after receiving claim payment reimbursement from the LOCA.

BCBSA Response

BCBSA will work with the Plan to provide evidence and supporting documentation to demonstrate that the Plan has implemented the necessary corrective actions to ensure that unallowable interest charges and LII (if applicable) are returned timely to the FEHBP via the SPI process after receiving claim payment reimbursement from the LOCA. BCBSA will provide the support with the response to the Final Report.

4. Health Benefit Refunds – Provider Offsets $100,240

Recommendation 10

We recommend that the contracting officer require the Plan to return $88,190 to the FEHBP for the questioned provider offset refunds. However, since we verified that the Plan subsequently returned $88,190 to the FEHBP for these questioned refunds, no further action is required for this amount.

Plan Response

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

Recommendation 11

We recommend that the contracting officer require the Plan to return $12,050 to the FEHBP for LII calculated on the questioned provider offset refunds. However, since we verified that the Plan subsequently returned $12,050 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 12

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 provider offset refunds against non-FEP claim payments are properly processed and returned to the FEHBP.

BCBSA Response

BCBSA will work with the Plan to provide evidence and supporting documentation to demonstrate that the Plan has implemented the necessary corrective actions to ensure that provider offset refunds against non-FEP claim payments are properly processed and returned to the FEHBP. BCBSA will provide the support with the response to the Final Report.

5. **<u>Medical Drug Rebates</u>** **<u>$28,400</u>**

<u>Recommendation 13</u>

We recommend that the contracting officer require the Plan to return $25,098 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan subsequently returned $25,098 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

Plan Response

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

<u>Recommendation 14</u>

We recommend that the contracting officer require the Plan to return $3,302 to the FEHBP for the questioned LII calculated on the medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned $3,302 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

B. <u>Administrative Expenses</u>

1. **<u>Unallowable and/or Unallocable Costs</u>** **<u>2,379,041</u>**

<u>Recommendation 15</u>

We recommend that the contracting officer disallow $2,224,366 for unallowable and/or unallocable costs that were charged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned $2,224,366 to the FEHBP for these questioned charges, no further action is required for this amount.

Plan Response

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

<u>Recommendation 16</u>

We recommend that the contracting officer require the Plan to return $154,675 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable charges. However, since we verified that the Plan subsequently returned $154,675 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 17

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 unallowable and/or unallocable costs are not charged to the FEHBP.

BCBSA Response

BCBSA will work with the Plan to provide evidence and supporting documentation to demonstrate that the Plan has implemented the necessary corrective actions to ensure that unallowable and/or unallocable costs are not charged to the FEHBP. BCBSA will provide the support with our response to the Final Report.

2. Employee Compensation Overcharges **$2,370,668**

Recommendation 18

We recommend that the contracting officer disallow $2,210,551 for employee compensation costs that were overcharged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned $2,210,551 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan Response

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

Recommendation 19

We recommend that the contracting officer require the Plan to return $160,117 to the FEHBP for the questioned LII calculated on the employee compensation overcharges. However, since we verified that the Plan subsequently returned $160,117 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 20

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that employee compensation costs are correctly limited and/or charged to the FEHBP.

Plan Response

The Plan agrees with this recommendation and has updated its training and procedures to calculate an out-of-system adjustment at the employee and cost center level to correctly limit the amount of compensation allocated and/or charged to the FEHBP.

3. Blue Cross Blue Shield Association Dues $162,835

Recommendation 21

We recommend that the contracting officer disallow $236,674 for the Association dues that were overcharged to the FEHBP in contract years 2019 through 2021. However, since we verified that the Plan subsequently returned $236,674 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Plan Response

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

Recommendation 22

We recommend that the contracting officer require the Plan to return $7,578 to the FEHBP for the questioned LII calculated on the Association dues that were overcharged to the FEHBP. However, since we verified that the Plan subsequently returned $7,578 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

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

Recommendation 23

We recommend that the contracting officer allow the Plan to charge the FEHBP $81,417 for Association dues that were undercharged to the FEHBP in contract years 2017 and 2018. However, since we verified that the Plan subsequently charged $81,417 to the FEHBP for these questioned undercharges, no further action is required for this amount.

Plan Response

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

Recommendation 24

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 Association dues are properly charged to the FEHBP.

BCBSA Response

BCBSA will work with the Plan to provide evidence and supporting documentation to demonstrate that the Plan has implemented the necessary corrective actions to ensure that Association Dues are properly charged to the FEHBP. BCBSA will provide the support with the response to the Final Report.

C. CASH MANAGEMENT

1. Interest Income $5,588

Recommendation 25

We recommend that the contracting officer require the Plan to return $5,588 to the FEHBP for the questioned interest income. However, since we verified that the Plan subsequently returned the questioned interest income of $5,588 to the FEHBP, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation 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 amendment to the Final Audit Report.

Sincerely,

Kim King
Managing Director, FEP Program Assurance

cc: Don Speziale, Director, FEP, Blue Shield of California
Michelle Mortensen, VP, Controller, Blue Shield of California
Connie Woodard, Director, Program Assurance
Mitch Davis, Manager, Program Assurance

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