



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

Final Audit Report

Audit of
Blue Shield of California Access+ HMO
Oakland, California

Report Number 2022-ERAG-0022
August 21, 2023

Executive Summary

Audit of Blue Shield of California Access+ HMO

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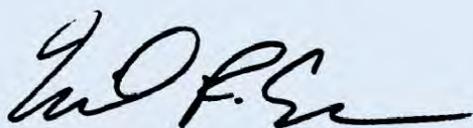
Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that Blue Shield of California Access+ HMO (Plan), Plan Code SI and doing business as Blue Shield of California, is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. The objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract.

What did we audit?

Our audit covered health benefit refunds and recoveries, including pharmacy 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.

Due to concerns with the Plan's provider offset refunds, we expanded our scope to include these refunds from July 2016 through May 2022.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$2,479,193 in health benefit charges, net administrative expense overcharges, and lost investment income (LII), and identified a procedural finding regarding the Plan's Fraud and Abuse Program. The Plan agreed with all of the questioned amounts and the Fraud and Abuse Program finding, and we verified that the Plan subsequently returned \$2,269,668 of these questioned amounts to the FEHBP. No additional amounts are due to the FEHBP due to previous unreimbursed administrative expenses.

Our audit results are summarized as follows:

- **Health Benefit Refunds and Recoveries** – We questioned \$1,374,101 for provider offset refunds and \$549,141 for cash receipt refunds that had not been returned to the FEHBP; \$99,855 for claim overpayment write-offs because of the Plan's lack of due diligence with recovery efforts; and \$134,081 for applicable LII calculated on funds that were returned untimely to the FEHBP. We verified that the Plan subsequently returned all of these questioned amounts to the FEHBP because of our audit.
- **Administrative Expenses** – We questioned \$322,015 in net administrative expense overcharges and LII, consisting of \$145,091 for employee compensation net overcharges, \$119,713 for unallowable and/or unallocable costs, \$49,683 in overcharges for Blue Cross Blue Shield Association dues, and \$7,528 for applicable LII on these questioned charges. We verified that the Plan has returned \$112,490 of these questioned amounts to the FEHBP. Since the Plan had unreimbursed administrative expenses for contract years 2017, 2018, and 2020 that covered the remaining questioned amounts of \$209,525, no additional amounts are due to the FEHBP for this audit.
- **Cash Management** – The audit disclosed no significant findings pertaining to the Plan's cash management activities and practices related to FEHBP funds. Overall, we determined that the Plan handled FEHBP funds in accordance with Contract CS 2639 and applicable laws and regulations.
- **Fraud and Abuse Program** – The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases set forth in FEHBP Carrier Letter 2017-13.

Abbreviations

Association	Blue Cross Blue Shield Association
BCBSA	Blue Cross Blue Shield Association
CFR	Code of Federal Regulations
Company	Blue Shield of California
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
FWA	Fraud, Waste, and Abuse
HMO	Health Maintenance Organization
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 Access+ HMO

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Report Fraud, Waste, and Mismanagement

I. Background

This final audit 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 Access+ HMO (Plan), doing business as Blue Shield of California (Company). 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 (5 U.S.C. §§ 401-424).

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 Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to enrollees and their families.¹ Enrollment is open to all Federal employees and annuitants in the Plan's service area, which includes most of Southern California. The Plan's contract (CS 2639) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires that an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

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

All findings from our prior audit of the Plan (Report No. 1D-SI-00-17-022, dated February 28, 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 officials throughout the audit and at an exit conference on March 2, 2023; and were presented in detail in a draft report, dated March 22, 2023. The 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. Also, additional documentation provided by the Plan on June 1, 2023, was considered in preparing our final report.

¹ Members of an experience-rated HMO plan have the option of using a designated network of providers or using out-of-network providers. A member's choice in selecting one healthcare provider over another has monetary and medical implications. For example, if a member chooses an out-of-network provider, the member will pay a substantial portion of the charges and covered benefits may be less comprehensive.

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:

Health Benefit Refunds and Recoveries

- To determine whether health benefit refunds and recoveries, including pharmacy and medical drug rebates, 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.

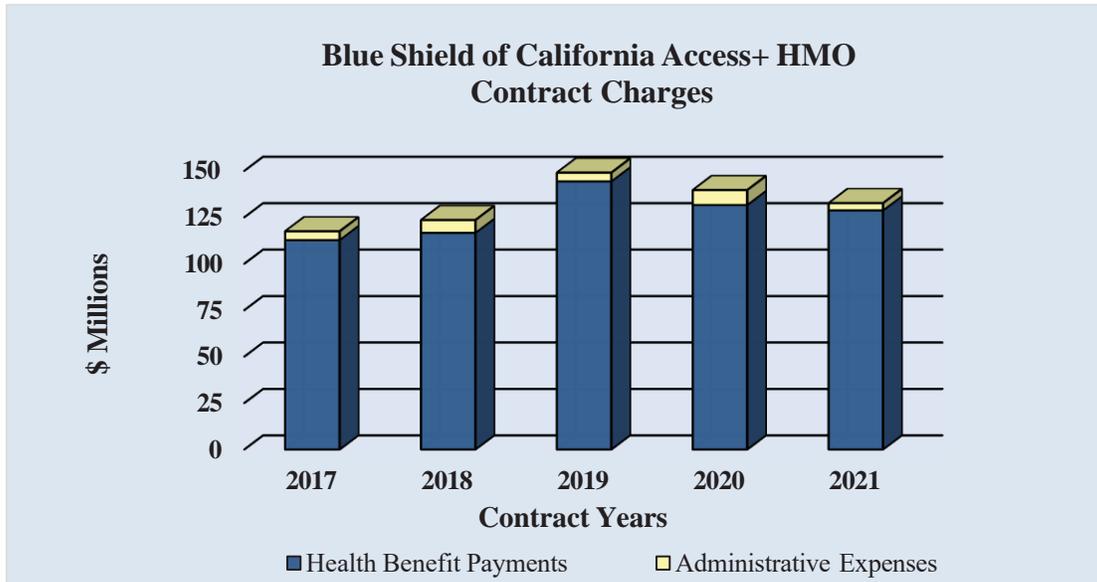
Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 2639 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 Plan's FEHBP Annual Accounting Statements for contract years 2017 through 2021. During this period, the Plan paid approximately \$634 million in FEHBP health benefit payments and charged the FEHBP approximately \$28 million in administrative expenses (see chart on the next page).



Specifically, we reviewed health benefit refunds and recoveries (such as cash receipt and provider offset refunds, claim overpayment write-offs, and pharmacy and medical drug rebates) 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. Due to concerns with the Plan’s provider offset refunds, we expanded our scope to include these refunds from July 2016 through May 2022.

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. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data

during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

The audit fieldwork was performed remotely as a desk audit in the Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. areas 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 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 **health benefit refunds and recoveries**. For contract years 2017 through 2021, we judgmentally selected and reviewed the following FEHBP items:

Health Benefit Refunds – Cash Receipts and Provider Offsets²

- A high dollar sample of 50 cash receipt health benefit refunds, totaling \$1,860,269 (from a universe of 403 cash receipt refunds, totaling \$2,566,442, for the audit scope). Our sample consisted of the 10 highest dollar cash receipt refunds from each year of the audit scope, which included refunds from \$8,752 to \$169,229.
- A high dollar sample of 25 health benefit refunds returned via provider offsets, totaling \$1,179,848 (from a universe of 3,342 refunds returned via provider offsets, totaling \$6,718,586, for the audit scope). Our sample consisted of the five highest dollar provider offsets from each year of the audit scope, which included offsets from \$13,666 to \$196,760.

Other Health Benefit Credits and Recoveries

- All 21 pharmacy drug rebate amounts, totaling \$34,915,347, for the audit scope.
- All 20 medical drug rebate amounts, totaling \$786,565, for the audit scope.
- All 17 claim overpayment write-offs, totaling \$99,855, for the audit scope. We reviewed these overpayment write-offs to determine if the Plan made diligent efforts to recover the applicable funds.

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

We reviewed these samples to determine if health benefit refunds and recoveries, including pharmacy and medical drug rebates, were timely returned to the FEHBP. The results of these samples were not projected to the applicable universes of health benefit refunds and recoveries, 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; Blue Cross Blue Shield Association dues; lobbying; and Patient Protection and Affordable Care Act fees.³ We used the FEHBP contract, the FAR, the FEHBPBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's **cash management activities and practices** to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2639 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 FEHBP 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 98 LOCA drawdowns, totaling \$169,393,472 (from a universe of 1,130 LOCA drawdowns, totaling \$663,104,775, for contract years 2017 through 2021), for the purpose of determining if the Plan's drawdowns were appropriate and adequately supported. Our sample included 20 weeks of LOCA drawdowns that were selected based on the week with the highest dollar drawdown day within the highest dollar drawdown month from each quarter 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 (including the Plan's 2021 Annual Fraud, Waste and Abuse Report) to test compliance with Contract CS 2639 and FEHBP Carrier Letter 2017-13.

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 FEHBP. For contract years 2017 through 2021, the Plan allocated administrative expenses of \$35,601,396 (before adjustments) to the FEHBP, from 617 cost centers that contained 117 natural accounts. From this universe, we selected a judgmental sample of 57 cost centers to review, which totaled \$18,575,976 in expenses allocated to the FEHBP. We also selected a judgmental sample of 50 natural accounts to review, which totaled \$32,884,276 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers and natural accounts based on high dollar amounts, our nomenclature review, and our trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses, since we did not use statistical sampling.

III. Audit Findings and Recommendations

A. Health Benefit Refunds and Recoveries

1. Health Benefit Refunds – Provider Offsets: \$1,476,296

For July 2016 through May 2022, our audit determined that the Plan had not returned provider offset refunds of \$1,374,101 to the FEHBP. Specifically, the Plan reduced payments to providers via provider offsets to recover FEHBP 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 \$1,476,296 to the FEHBP, consisting of \$1,374,101 for the questioned provider offset refunds and \$102,195 for applicable lost investment income (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.”

Contract CS 2639, 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 2639, 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 3,342 health benefit refunds, totaling \$6,718,586, 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 high dollar sample of 25 provider offset refunds, totaling \$1,179,848, to determine if the Plan timely returned these refunds to the FEHBP. Our sample consisted of the five highest dollar provider offset refunds from each year of the audit scope, which included offset refunds from \$13,666 to \$196,760. Provider offsets occur when the Plan reduces payments to participating providers or members 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 FEHBP refunds were offset against **non-FEHBP claim payments**. Therefore, this process also required the Plan to make corporate fund transfers into the FEHBP investment account and then letter of credit account (LOCA) drawdown

adjustments to return the provider offset refunds to the FEHBP. In contrast, when the Plan made provider offsets to recover FEHBP refunds against **FEHBP claim payments**, there was no need for the Plan to transfer corporate funds into the FEHBP investment account and make LOCA drawdown adjustments, since these offsets directly reduced the FEHBP 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 five provider offset refunds (or 20 percent of the sample), totaling \$229,634, 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-FEHBP claim payments but had not transferred the applicable corporate funds into the FEHBP investment account and adjusted the LOCA drawdowns to return these refunds to the FEHBP.

In response to our Standard Information Request (dated January 3, 2022), the Plan also self-disclosed during our pre-audit phase that provider offset refunds inadvertently were not returned to the FEHBP during the audit scope. The Plan stated that some of the FEHBP provider offset refunds were not included in the weekly corporate fund transfers to the FEHBP investment account due to a systematic coding error in the Plan's cash operations query for provider offset refunds.

As a follow-up to our sample results and the self-disclosure by the Plan, we requested the Plan to provide a complete universe of provider offset refund exceptions, starting from when this coding error initially occurred to when the Plan corrected this error, as well as the following items: an explanation and applicable support for how the Plan prepared the universe of provider offset refund exceptions, LII calculations for these refund exceptions, support for the return of the refund exceptions and applicable LII to the FEHBP, and the Plan's corrective actions for these refund exceptions.

The Plan had not returned 1,453 provider offset refunds, totaling \$1,374,101, to the FEHBP.

In response to our follow-up request, the Plan stated that this systematic coding error started in July 2016 and was corrected in May 2022 (because of our audit). Accordingly, we expanded our review of all health benefit refunds that were recovered via provider offsets against non-FEHBP claim payments during this period. For July 2016 through May 2022, the Plan provided a universe of 1,453 health benefit refunds, totaling \$1,374,101, that were recovered via the Plan's provider offset process but had not been returned to the FEHBP because of the systematic coding error. We reviewed the Plan's analysis and supporting files for the provider offset refund exceptions (including LII calculations) for accuracy, completeness, and/or reasonableness. Based on our review, we accepted the Plan's analysis and supporting files for the provider offset refund exceptions of \$1,374,101 (including the exceptions from our sample) and applicable LII of \$102,195 calculated on these refund exceptions.

According to the Plan, corrective actions for this audit finding were implemented starting in May 2022. Specifically, the Plan corrected the systematic coding error by creating a

new cash operations query to ensure that all FEHBP provider offset refunds recovered against non-FEHBP claim payments are identified and timely transferred to the FEHBP investment account and then returned to the FEHBP via LOCA drawdown adjustments. From May 2022 through February 2023, the Plan also returned \$1,476,296 to the FEHBP for this audit finding, consisting of \$1,374,101 for the questioned provider offset refund exceptions and \$102,195 for applicable LII calculated on these refunds that were returned untimely to the FEHBP.

Plan Response:

The Plan agrees with the finding and recommendations. For the procedural recommendation, the Plan will provide documentation to the contracting officer demonstrating that the necessary corrective actions have been implemented.

OIG Comments:

As part of our review, we verified that the Plan returned \$1,476,296 to the FEHBP on various dates from May 2022 through February 2023, consisting of \$1,374,101 for the questioned provider offset refunds and \$102,195 for applicable LII.

Recommendation 1:

We recommend that the contracting officer require the Plan to return \$1,374,101 to the FEHBP for the questioned provider offset refunds. However, since we verified that the Plan subsequently returned \$1,374,101 to the FEHBP for these questioned refunds, no further action is required for this amount.

Recommendation 2:

We recommend that the contracting officer require the Plan to return \$102,195 to the FEHBP for LII calculated on the questioned provider offset refunds. However, since we verified that the Plan subsequently returned \$102,195 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendations 3:

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

2. Health Benefit Refunds – Cash Receipts: \$578,285

Our audit determined that the Plan had not returned 26 health benefit refunds, totaling \$549,141, to the FEHBP as of December 31, 2021. The Plan subsequently returned these questioned health benefit refunds to the FEHBP in August 2022 and November 2022, ranging from 713 to 1,691 days late, after receiving our audit notification letter, and/or because of our audit. Also, the Plan untimely returned 51 health benefit refunds, totaling \$1,245,554, to the FEHBP during the audit scope. However, since the Plan returned these 51 health benefit refunds to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. As a result, we are questioning \$578,285 for this audit finding, consisting of \$549,141 for the questioned health benefit refunds and \$29,144 for applicable LII on health benefit refunds returned untimely to the FEHBP.

As previously cited from Contract CS 2639, all health benefit refunds and recoveries must be deposited into the FEHBP investment account within 30 days and returned to the FEHBP letter of credit account within 60 days after receipt by the Carrier. Also, as previously cited from FAR 52.232-17(a), all amounts that become payable by the Contractor should include simple interest from the date due.

Regarding reportable monetary findings, Contract CS 2639, 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 403 FEHBP cash receipt health benefit refunds, totaling \$2,566,442. From this universe, we selected and reviewed a high dollar sample of 50 cash receipt refunds, totaling \$1,860,269, to determine if the Plan timely returned these refunds to the FEHBP. Our sample consisted of the 10 highest dollar cash receipt refunds from each year of the audit scope, which included refunds from \$8,752 to \$169,229. Due to a significant number of exceptions in our sample, we expanded our testing and selected an additional 28 cash receipt refunds, totaling \$290,816, to review. Our expanded review consisted of a judgmental sample of cash receipt refunds of \$5,000 or more that were not previously included in our initial sample.

Based on our review, we noted the following refund exceptions in our initial and expanded samples (combined):

- The Plan had not returned 17 health benefit refunds, totaling \$525,039, to the FEHBP as of December 31, 2021. The Plan subsequently returned these refunds to the FEHBP in August 2022 and November 2022, ranging from 713 to 1,691 days late, after receiving our audit notification letter (dated January 3, 2022), and/or because of our audit (after receiving our samples). Therefore, we are questioning these 17 health benefit refunds as monetary findings as well as applicable LII of \$26,619 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 \$26,619 to the FEHBP in August 2022 and November 2022.

- The Plan returned 51 health benefit refunds, totaling \$1,245,554, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these refunds into the dedicated FEHBP investment account from 2 to 532 days late. Since the Plan returned these 51 refunds to the FEHBP during the audit scope and prior to our audit notification date, we did not question this principal amount as a monetary finding. We also verified that the Plan returned applicable LII to the FEHBP during the audit scope for 40 of these 51 refunds that were returned untimely to the FEHBP. However, we noted that the Plan subsequently returned LII of \$1,081 to the FEHBP on various dates from August 2022 through January 2023, calculated on 11 of these 51 refunds that were returned untimely to the FEHBP. Since the Plan returned this LII to the FEHBP after our audit notification date, we are questioning this LII amount of \$1,081 as a monetary finding. We reviewed and accepted the Plan's LII calculation.

The Plan had not returned 26 health benefit refunds, totaling \$549,141, to the FEHBP as of December 31, 2021.

When reviewing our expanded sample, the Plan also identified nine additional health benefit refunds, totaling \$24,102, that had not been returned to the FEHBP as of December 31, 2021. The Plan subsequently returned these nine additional refund exceptions to the FEHBP in

November 2022 because of our audit, ranging from 1,040 to 1,296 days late. Therefore, we are also questioning these additional health benefit refund exceptions as monetary findings as well as applicable LII of \$1,444 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 \$1,444 to the FEHBP in November 2022.

In total, the Plan returned \$578,285 to the FEHBP for this audit finding, consisting of \$549,141 (\$525,039 plus \$24,102) for the 26 (17 plus 9) questioned health benefit refunds and \$29,144 (\$26,619 plus \$1,081 plus \$1,444) for the questioned LII on the applicable health benefit refunds that were returned untimely to the FEHBP.

Plan Response:

The Plan agrees with the finding and recommendations. For the procedural recommendation, the Plan will provide documentation to the contracting officer demonstrating that the necessary corrective actions have been implemented.

OIG Comments:

As part of our review, we verified that the Plan returned \$578,285 to the FEHBP on various dates from August 2022 through January 2023, consisting of \$549,141 for the questioned health benefit refunds and \$29,144 for applicable LII on the health benefit refunds returned untimely to the FEHBP.

Recommendation 4:

We recommend that the contracting officer require the Plan to return \$549,141 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan subsequently returned \$549,141 to the FEHBP for these questioned health benefit refunds, no further action is required for this amount.

Recommendation 5:

We recommend that the contracting officer require the Plan to return \$29,144 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$29,144 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 6:

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 cash receipt refunds are timely returned to the FEHBP (i.e., deposited into the FEHBP investment account within 30 days after receipt and returned to the LOCA via drawdown adjustments within 60 days after receipt).

3. Claim Overpayment Write-Offs: \$102,597

The Plan did not make prompt and diligent efforts to recover 17 FEHBP claim overpayments, totaling \$99,855, before writing them off. Based on Contract CS 2639, the Plan must make prompt and diligent efforts to recover erroneous benefit payments until the debt is paid in full or determined to be uncollectible. Our audit determined that the Plan did not fully comply with the contract due diligence requirements for recovering these 17 FEHBP claim overpayments. Because of the Plan's lack of due diligence with recovery efforts, we are questioning \$102,597 for this audit finding, consisting of \$99,855 for 17 claim overpayment write-offs and \$2,742 for applicable LII.

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 2639, 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 . . . 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 to the member or the provider 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 effort 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 . . .
- (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 . . . documentation of those efforts.”

During contract years 2017 through 2021, there were 17 FEHBP claim overpayment write-offs, totaling \$99,855. From this universe, we selected and reviewed all these FEHBP claim overpayment write-offs to determine if the Plan made prompt and diligent efforts to recover the funds before writing these overpayments off. We noted that only 3 of these 17 claim overpayment write-offs exceeded \$10,000.

Based on our review, we determined that the Plan was not prompt and diligent in its efforts to recover these 17 FEHBP claim overpayments. The contract specifically requires prompt and diligent recovery efforts by the Plan before writing off these claim overpayments. We noted the following exceptions for these overpayment write-offs:

- For 14 of these claim overpayments, we determined that although the Plan timely mailed the initial notices of erroneous payments to the health care providers, the Plan did not send the subsequent 30, 60 and 90-day follow-up refund request letters, as required in Section 2.3(g)(2) of Contract CS 2639, before writing them off. Because of the Plan’s lack of due diligence with recovery efforts, the Plan had not recovered and returned \$76,430 to the FEHBP for these claim overpayments. Accordingly, the Plan should continue to pursue and recover these claim overpayments from the applicable providers. Since the Plan had not recovered these 14 claim overpayments, these exceptions are not subject to LII.
- The three remaining claim overpayments were included in a financial settlement between the Plan and a health care provider. In this settlement, the Plan agreed to write-off all claim overpayments to this provider, including these three FEHBP claim overpayments, in return for a financial settlement. Although the Plan benefited from this settlement, the FEHBP did not receive a financial benefit. Therefore, the Plan should not have written off these three FEHBP claim overpayments. As a result, the Plan subsequently returned \$26,167 to the FEHBP, consisting of \$23,425 for these three claim overpayment write-offs and \$2,742 for LII on these questioned write-offs (as calculated by the Plan). We reviewed and accepted the Plan’s LII calculation.

In total, we are questioning \$102,597 for this audit finding, consisting of \$99,855 (\$76,430 plus \$23,425) for 17 (14 plus 3) questioned claim overpayment write-offs and \$2,742 for applicable LII on 3 claim overpayment write-offs that were included in the Plan's financial settlement with a health care provider.

Plan Response:

The Plan agrees with the finding and recommendations. Regarding the procedural recommendation, the Plan states, "The FEHBP Access+ HMO membership is included with the Plan's Commercial business which does not currently have special due diligence procedures in place to comply with Section 2.3(g) of Contract CS 2639. Under the BSC Commercial guidelines, the Plan sends only the initial notice of erroneous payment to the health care providers; the additional 30, 60, 90-day letters are not sent out. The Plan will work with its contracting officer to resolve this compliance issue, either by obtaining a waiver or updating its internal procedures to return any write-off amount for this line of business."

OIG Comments:

As part of our review, we verified that the Plan returned \$102,597 to the FEHBP in February 2023 and May 2023, consisting of \$99,855 for the questioned claim overpayment write-offs and \$2,742 for applicable LII.

Recommendation 7:

We recommend that the contracting officer require the Plan to return \$99,855 to the FEHBP for the questioned claim overpayments that were written off, whether recovered or not, as prompt and diligent efforts to recover were not made. However, since we verified that the Plan subsequently returned these questioned claim overpayment write-offs to the FEHBP, no further action is required for this amount.

Recommendation 8:

We recommend that the contracting officer require the Plan to return \$2,742 to the FEHBP for LII calculated on the questioned claim overpayment write-offs that were included in a financial settlement between the Plan and a health care provider. However, since we verified that the Plan subsequently returned \$2,742 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 Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that claim overpayments are pursued, monitored, recovered, and/or returned to the FEHBP, as required by Section 2.3(g) of Contract CS 2639, before writing them off.

B. Administrative Expenses

1. Employee Compensation Overcharges: \$147,007

Our audit determined that the Plan net overcharged the FEHBP \$145,091 for employee compensation costs in contract years 2017 through 2021. As a result, we are questioning \$147,007 for this audit finding, consisting of \$145,091 for net employee compensation overcharges and \$1,916 for applicable LII on the overcharges. The Plan subsequently returned \$10,281 to the FEHBP, consisting of \$8,365 for net employee compensation overcharges and \$1,916 for applicable LII on these returned overcharges. Since the Plan had unreimbursed administrative expenses for contract years 2018 and 2020 that covered the remaining net overcharges, no additional questioned amounts are due to the FEHBP for this audit finding.

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.

Contract CS 2639, 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." 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.

The Plan net overcharged the FEHBP \$145,091 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 OSA's totaled \$918,293 in FEHBP cost reductions for contract years 2017 through 2021. Using documentation provided by the Plan, we recalculated these OSA's and determined that the Plan should have made OSA's totaling \$1,063,384 in FEHBP cost reductions, resulting in a total overcharge of \$145,091 (\$1,063,384 minus \$918,293) to the FEHBP.

Based on our OSA recalculations, we determined that the Plan net overcharged the FEHBP \$145,091 for employee compensation costs in contract years 2017 through 2021. Specifically, the Plan overcharged the FEHBP \$168,623 for contract years 2018 through 2020 (\$63,997 in 2018, \$31,897 in 2019, and \$72,729 in 2020) and undercharged the FEHBP \$23,532 for contract years 2017 and 2021 (\$6,642 in 2017 and \$16,890 in 2021) 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 employee compensation costs were originally allocated to the FEHBP through various cost centers. In our OSA recalculations, we used allocation methodologies that were more reflective of how costs were originally allocated to the FEHBP.
- The Plan did not remove all compensation costs for employees performing duties that were unallowable and/or unallocable to the FEHBP. 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 that were not originally factored into calculating these OSAs. Therefore, we also questioned these non-chargeable employee compensation costs.

In total, the Plan returned \$10,281 to the FEHBP for this audit finding, consisting of \$8,365 for net employee compensation overcharges and \$1,916 for applicable LII on these returned overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. We also verified that the Plan returned these specific questioned amounts to the FEHBP.

Plan Response:

The Plan agrees with the finding and recommendations. For the questioned employee compensation costs, the Plan will include the appropriate accounting adjustments for all years in the 2023 Annual Accounting Statement. Regarding the procedural recommendation, the Plan will provide documentation to the contracting officer demonstrating that the necessary corrective actions have been implemented.

OIG Comments:

As part of our review, we verified that the Plan had a total of \$1,188,942 in unreimbursed allowable costs (before audit finding adjustments), consisting of \$29,506 in 2017, \$838,808 in 2018, and \$320,628 in 2020. When the Plan resolved this audit finding, we verified that \$136,726 (\$63,997 for 2018 and \$72,729 for 2020) of the \$145,091 in net employee compensation overcharges were considered as unreimbursed costs. Therefore, the Plan is not required to return \$136,726 of the questioned employee compensation costs to the FEHBP. However, the Plan is required to make accounting adjustments for these questioned amounts to reduce the filed costs for contract years 2018 and 2020. Since there is no impact on the amount charged to the FEHBP, no LII calculation is necessary on these questioned amounts of \$136,726 for this audit finding. Additionally, we verified that the Plan returned the remaining net employee compensation overcharges of \$8,365 (\$145,091 minus \$136,726) to the FEHBP as well as applicable LII of \$1,916 on these returned overcharges.

Recommendation 10:

We recommend that the contracting officer disallow \$145,091 for the questioned employee compensation costs that were net overcharged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned \$8,365 of the questioned employee compensation costs to the FEHBP, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$136,726 (i.e., \$63,997 for 2018 and \$72,729 for 2020) to properly reduce the filed administrative expenses for contract years 2018 and 2020.

Recommendation 11:

We recommend that the contracting officer require the Plan to return \$1,916 to the FEHBP for the questioned LII calculated on the employee compensation overcharges. However, since we verified that the Plan subsequently returned \$1,916 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 Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that executive compensation costs are correctly limited and/or charged to the FEHBP.

2. Unallowable and/or Unallocable Costs: \$124,441

The Plan charged \$119,713 in unallowable and/or unallocable costs to the FEHBP for contract years 2017 through 2021. As a result, we are questioning \$124,441 for this audit finding, consisting of \$119,713 for unallowable and/or unallocable costs and \$4,728 for applicable LII on the overcharges. The Plan subsequently returned \$73,385 to the FEHBP, consisting of \$68,657 for unallowable and/or unallocable costs and \$4,728 for applicable LII on these returned overcharges. Since the Plan had unreimbursed administrative expenses for contract years 2017, 2018, and 2020 that covered the remaining unallowable and/or unallocable costs, no additional questioned amounts are due to the FEHBP for this audit finding.

As previously cited from Contract CS 2639, 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.

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.”

For contract years 2017 through 2021, the Plan allocated administrative expenses of \$35,601,396 (before adjustments) to the FEHBP, from 617 cost centers that contained 117 natural accounts. From this universe, we selected a judgmental sample of 57 cost centers to review, which totaled \$18,575,976 in expenses allocated to the FEHBP. We also selected a judgmental sample of 50 natural accounts to review, which totaled \$32,884,276 in expenses allocated to the FEHBP through the cost centers. We selected these cost centers and natural accounts based on high dollar amounts, our nomenclature review, and our trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness.

While concurrently doing an audit of the FEHBP operations for another experience-rated health plan that is administered by the Company, we noted that the Company charged unallowable and/or unallocable costs (i.e., cost center, natural account, and accounts payable transaction expenses) to the FEHBP for contract years 2017 through 2021. To ensure that the Company did not charge these unallowable and/or unallocable costs to the FEHBP for the Blue Shield of California Access+ HMO product, we reviewed similar types of costs for allowability, allocability, and reasonableness.

Based on our review of these cost centers, natural accounts, and accounts payable transactions, we determined that the Plan allocated and charged costs to the FEHBP from 8 cost centers (CC), 3 natural accounts (NA), and 47 accounts payable transactions that were specifically 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.

CC or NA Number	CC or NA Name	Amount Questioned	Reason Questioned
CC 1113Q	Underwritten Business Depreciation	\$23,742	Unallocable
CC 4150S	Marketing Operations – Labor	21,864	Unallowable
CC 4203G	Claims Global Solutions – FEP	16,281	Unallocable
CC 3300C	Teletch Member Calls	11,046	Unallocable
NA 60261	Advertising	10,917	Unallowable
CC 6400H	Commercial Marketing	9,848	Unallowable
CC 1641H	New Product Development	8,149	Unallocable
CC 6213G	FEHBP HMO Marketing Unallowable	5,474	Unallowable
NA 60080	Sales Incentives Quarterly and Monthly	1,342	Unallowable
CC 6203G	FEP Field Services Unallowable	644	Unallocable
NA 65060	Allocated Marketing and Advertising	76	Unallowable
Total		\$109,383	

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

Type of Transaction	Count	Amount Questioned	Reason Questioned
Corporate Recovery Fees	38	\$1,711	Unallocable
Consulting Services	4	6,731	Unallocable
Health Solutions	1	1,000	Unallocable
Charitable Contributions	2	623	Unallowable
Political Contributions	2	265	Unallowable
Total	47	\$10,330	

Concerning the questioned costs that were charged to the FEHBP, 48 CFR 31-205-1 (public relations and advertising costs), 48 CFR 31.205-8 (contributions or donations), and 48 CFR 31.205-38 (selling costs) 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.

In total, we are questioning \$119,713 (\$109,383 plus \$10,330) for these unallowable and/or unallocable costs that were charged to the FEHBP and \$4,728 for applicable LII on these questioned charges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. Of these questioned amounts, the Plan returned \$73,385 to the FEHBP, consisting of \$68,657 for unallowable and/or unallocable costs and \$4,728 for applicable LII on these returned overcharges. We also verified that the Plan returned these specific questioned amounts to the FEHBP.

Plan Response:

The Plan agrees with the finding and recommendations. For the questioned unallowable and/or unallocable costs, the Plan included the appropriate accounting adjustments for all years in the 2022 Annual Accounting Statement. Regarding the procedural recommendation, the Plan will provide documentation to the contracting officer demonstrating that the necessary corrective actions have been implemented.

OIG Comments:

As part of our review, we verified that the Plan had a total of \$1,188,942 in unreimbursed allowable costs (before audit finding adjustments), consisting of \$29,506 in 2017, \$838,808 in 2018, and \$320,628 in 2020. When the Plan resolved this audit finding, we verified that \$51,056 (\$26,800 for 2017, \$18,987 for 2018, and \$5,269 for 2020) of the \$119,713 in unallowable and/or unallocable costs were considered as unreimbursed costs. Therefore, the Plan is not required to return \$51,056 of the questioned unallowable and/or unallocable costs to the FEHBP. However, the Plan is required to make accounting

adjustments for the questioned amounts to reduce filed costs for contract years 2017, 2018, and 2020. Since there is no impact on the amount charged to the FEHBP, no LII calculation is necessary on these questioned amounts of \$51,056 for this audit finding. Additionally, we verified that the Plan returned the remaining unallowable and/or unallocable costs of \$68,657 (\$119,713 minus \$51,056) to the FEHBP as well as applicable LII of \$4,728 on these returned overcharges.

Recommendation 13:

We recommend that the contracting officer disallow \$119,713 for the questioned 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 \$68,657 to the FEHBP for the questioned unallowable and/or unallocable costs, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$51,056 (i.e., \$26,800 for 2017, \$18,987 for 2018, and \$5,269 for 2020) to properly reduce the filed administrative expenses for contract years 2017, 2018, and 2020.

Recommendation 14:

We recommend that the contracting officer require the Plan to return \$4,728 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable costs. However, since we verified that the Plan subsequently returned \$4,728 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 15:

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

3. Blue Cross Blue Shield Association Dues: \$50,567

The Plan overcharged the FEHBP \$49,683 for Blue Cross Blue Shield Association (BCBSA or Association) dues in contract years 2017 through 2021. Specifically, the Plan did not exclude non-chargeable Association initiatives from the dues that were charged to the FEHBP. As a result, we are questioning \$50,567 for this audit finding, consisting of \$49,683 for the Association dues that were overcharged to the FEHBP and \$884 for applicable LII on the overcharges. The Plan subsequently returned \$28,824 to the FEHBP, consisting of \$27,940 for Association dues overcharged to the FEHBP and \$884 for applicable LII on these returned overcharges. Since the Plan had unreimbursed administrative expenses for contract years 2017, 2018, and 2020 that covered the remaining questioned Association dues, no additional amounts are due to the FEHBP for this audit finding.

As previously cited from Contract CS 2639, 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.

The Association provides administrative guidance to the Company for charging Blue Cross and/or Blue Shield member plan dues to the FEHBP for the Company's Federal Employee Program (FEP) line of business. FEP Memorandum Number 20-019FYI, titled BCBSA Regular Member Plan Dues and Other Assessments: 2015-2020 (dated February 3, 2020) and FEP Memorandum Number 22-057FYI, titled BCBSA Regular Member Plan Dues and Other Assessments: 2017-2022 (dated March 15, 2022) include specific guidance (such as referring to several Federal regulations) related to the chargeability of Association initiatives to the FEHBP. These memorandums state that most of these initiatives are not chargeable to the FEHBP. Accordingly, we used these memorandums to determine the allowability of the Association dues that were chargeable to the FEHBP for the Company's experience-rated HMO product (Blue Shield of California Access+ HMO).

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 the FEHBP'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. Based on our review, we determined that the Plan overcharged the FEHBP \$49,683 (\$2,706 in 2017, \$5,414 in 2018, \$12,729 in 2019, \$13,623 in 2020, and \$15,211 in 2021) for Association dues. These overcharges 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. The Plan improperly charged the FEHBP for the following non-chargeable Association initiatives: Brand Reputation Policy Influencer Campaign, Medicare National Awareness Campaign, and Litigation Assessment.

In total, we are questioning \$50,567 for this audit finding, consisting of \$49,683 for Association dues that were overcharged to the FEHBP and \$884 for applicable LII on the overcharges (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. Of these questioned amounts, the Plan returned \$28,824 to the FEHBP, consisting of \$27,940 for Association dues that were overcharged to the FEHBP and \$884 for applicable LII on these returned overcharges. We also verified that the Plan returned these specific questioned amounts to the FEHBP.

Plan Response:

The Plan agrees with the finding and recommendations. For the questioned Association dues, the Plan included the appropriate accounting adjustments for all years in the 2022 Annual Accounting Statement. Regarding the procedural recommendation, the Plan will provide documentation to the contracting officer demonstrating that the necessary corrective actions have been implemented.

OIG Comments:

As part of our review, we verified that the Plan had a total of \$1,188,942 in unreimbursed allowable costs (before audit finding adjustments), consisting of \$29,506 in 2017, \$838,808 in 2018, and \$320,628 in 2020. When the Plan resolved this audit finding, we verified that \$21,743 (\$2,706 for 2017, \$5,414 for 2018, and \$13,623 for 2020) of the \$49,683 in overcharges for Association dues were considered as unreimbursed costs. Therefore, the Plan is not required to return \$21,743 of these questioned Association dues to the FEHBP. However, the Plan is required to make accounting adjustments for these questioned amounts to reduce the filed costs for contract years 2017, 2018, and 2020. Since there is no impact on the amount charged to the FEHBP, no LII calculation is necessary on these questioned amounts of \$21,743 for this audit finding. Additionally, we verified that the Plan returned the remaining questioned Association dues of \$27,940 (\$49,683 minus \$21,743) to the FEHBP as well as applicable LII of \$884 on these returned overcharges.

Recommendation 16:

We recommend that the contracting officer disallow \$49,683 for the questioned Association dues that were overcharged to the FEHBP in contract years 2017 through 2021. However, since we verified that the Plan subsequently returned \$27,940 of the questioned Association dues to the FEHBP, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$21,743 (i.e., \$2,706 for 2017, \$5,414 for 2018, and \$13,623 for 2020) to properly reduce the filed administrative expenses for contract years 2017, 2018, and 2020.

Recommendation 17:

We recommend that the contracting officer require the Plan to return \$884 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 \$884 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 18:

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 Association dues are properly charged to the FEHBP.

C. Cash Management

The audit disclosed no 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 2639 and applicable laws and regulations concerning cash management in the FEHBP.

D. Fraud and Abuse Program

1. Special Investigations Unit: Procedural

The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2017-13. Specifically, we identified issues with the Plan's reporting of fraud and abuse cases to the OPM OIG (i.e., five cases were not reported, and one case was reported untimely) and errors on the Plan's 2021 Fraud, Waste, and Abuse (FWA) Annual Report. Without awareness of these existing potential fraud and abuse issues, the OPM OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole. Additionally, the accuracy of fraud and abuse case activities reported on the Plan's FWA Annual Report is essential to avoid presenting a false narrative of the Plan's progress with identifying and preventing FWA in the FEHBP.

FEHBP Carrier Letter 2017-13 (OPM Federal Employees Health Benefits Fraud, Waste, and Abuse), dated November 20, 2017, states that all Carriers "are required to submit a written notification to OPM-OIG within 30 working days when there is a reportable FWA that has occurred against the FEHB Program. Potential FWA issues become reportable to the OIG if, after a preliminary review of the allegation and/or complaint, the Carrier takes an affirmative step to expand, further investigate, develop and/or close an allegation/complaint."

The Plan did not report five fraud and abuse cases to the OPM OIG.

For contract year 2021, the Plan opened 24 fraud and abuse cases with potential FEHBP exposure. We reviewed all of these fraud and abuse cases to determine if the cases were properly reported to the OPM OIG, as required by Carrier Letter 2017-13.

Based on our review, we determined that the Plan did not submit notifications to the OPM OIG for five of these cases and untimely reported one case (containing an incorrect FEHBP exposure amount) to the OPM OIG. Additionally, we reviewed the Plan's 2021 FWA Annual Report for accuracy and identified reporting errors in the following categories: "Allegations/Complaints/Cases where there is FEHB Program Exposure" were overstated by 14 cases and "Case Notifications/Referrals Sent to the OPM-OIG" were understated by 2 cases.

Ultimately, the Plan's incomplete, untimely, and/or inaccurate reporting of potential FEHBP cases to the OPM OIG has resulted in a failure to meet the communication and reporting requirements that are set forth in Carrier Letter 2017-13. The lack of notification by the Plan did not allow the OPM OIG to investigate if other FEHBP Carriers were exposed to the identified potentially fraudulent activity. As a result, this lack of OPM OIG notification by the Plan may result in additional improper payments being made by other FEHBP Carriers. This also does not allow the OPM OIG's Administrative Sanctions Group to be notified timely.

Plan Response:

The Plan agrees with the finding and recommendation. The Plan states, “Feedback was provided to all SIU Investigators of how and when to report FEP HMO exposure of fraud, waste, and abuse. In addition, refresher training for OPM reporting was provided to all SIU Investigators. The Plan will provide supporting documentation to the contracting officer that demonstrates that the necessary corrective actions have been implemented.”

Recommendation 19:

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 meet the communication and reporting requirements of fraud and abuse cases that are contained in FEHBP Carrier Letter 2017-13.

IV. Schedule A – Questioned Charges

Audit Findings	2016	2017	2018	2019	2020	2021	2022	2023	Total
A. Total Health Benefit Refunds and Recoveries	\$121,521	\$324,492	\$538,833	\$741,139	\$127,385	\$136,601	\$167,047	\$160	\$2,157,178
1. Health Benefit Refunds – Provider Offsets*	\$121,521	\$324,492	\$476,654	\$282,311	\$59,314	\$54,459	\$157,545	\$0	\$1,476,296
2. Health Benefit Refunds – Cash Receipts*	\$0	\$0	\$38,180	\$458,097	\$67,690	\$5,477	\$8,841	\$0	\$578,285
3. Claim Overpayment Write-Offs*	\$0	\$0	\$23,999	\$731	\$381	\$76,665	\$661	\$160	\$102,597
B. Total Administrative Expenses	\$0	\$52,556	\$89,309	\$56,400	\$93,006	\$27,290	\$3,122	\$332	\$322,015
1. Employee Compensation Overcharges*	\$0	(\$6,642)	\$63,997	\$31,897	\$73,249	(\$16,571)	\$900	\$178	\$147,007
2. Unallowable and/or Unallocable Costs*	\$0	\$56,492	\$19,898	\$11,774	\$5,928	\$28,523	\$1,672	\$154	\$124,441
3. Blue Cross Blue Shield Association Dues*	\$0	\$2,706	\$5,414	\$12,729	\$13,830	\$15,338	\$550	\$0	\$50,567
C. Total Cash Management	\$0	\$0	\$0						
D. Total Fraud and Abuse Program	\$0	\$0	\$0						
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Questioned Charges	\$121,521	\$377,048	\$628,142	\$797,539	\$220,391	\$163,891	\$170,169	\$492	\$2,479,193

*We included lost investment income (LII) within audit findings A1 (\$102,195), A2 (\$29,144), A3 (\$2,742), B1 (\$1,916), B2 (\$4,728), and B3 (\$844). Therefore, no additional LII is applicable.

Appendix



601 12th Street
Oakland, CA 94607

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 20415-1100

May 5, 2023

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) operations at Blue Shield of California Access+ HMO. Our comments concerning the findings in the report are as follows:

A. HEALTH BENEFIT REFUNDS AND RECOVERIES

1. Health Benefit Refunds – Provider Offsets **\$1,476,496**

Recommendation 1

We recommend that the contracting officer require the Plan to return \$1,374,101 to the FEHBP for the questioned provider offset refunds. However, since we verified that the Plan subsequently returned \$1,374,101 to the FEHBP for these questioned refunds, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$102,195 to the FEHBP for LII calculated on the questioned provider offset refunds. However, since we verified that the Plan subsequently returned \$102,195 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with these recommendations and as indicated no additional action is necessary.

Recommendation 3

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

Plan Response

The Plan agrees with this recommendation and will provide supporting documentation to the contracting officer to provide evidence that the necessary corrective actions have been implemented.

2. Health Benefit Refunds – Cash Receipts \$578,285

Recommendation 4

We recommend that the contracting officer require the Plan to return \$549,141 to the FEHBP for the questioned health benefit refunds. However, since we verified that the Plan subsequently returned \$549,141 to the FEHBP for these questioned health benefit refunds, no further action is required for this amount,

Recommendation 5

We recommend that the contracting officer require the Plan to return \$29,144 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that the Plan subsequently returned \$29,144 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with these recommendations and as indicated no additional action is necessary.

Recommendation 6

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 cash receipt refunds are timely returned to the FEHBP (i.e., deposited into the FEHBP investment account within 30 days after receipt and returned to the LOCA via drawdown adjustments within 60 days after receipt).

Plan Response

The Plan agrees with this recommendation and will provide supporting documentation to the contracting officer which demonstrates that the necessary corrective actions have been implemented.

3. Claim Overpayment Write-offs

\$102,597

Recommendation 7

We recommend that the contracting officer require the Plan to return \$99,855 to the FEHBP for the questioned claim overpayments that were written off, whether recovered or not, as prompt and diligent efforts to recover were not made. However, since we verified that the Plan subsequently returned \$23,425 of these questioned claim overpayment write-offs to the FEHBP, the contracting officer only needs to ensure that the Plan returns the remaining questioned claim overpayment write-offs of \$76,430.

Plan Response

The Plan agrees with this recommendation and will provide supporting documentation to the contracting officer that supports the return of the remaining questioned amount of \$76,430, plus applicable LII, by May 5, 2023.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$2,742 to the FEHBP for LII calculated on the questioned claim overpayments write-offs. However, since we verified that the Plan subsequently returned \$2,742 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 indicated no additional action is necessary.

Recommendation 9

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 claim overpayments are adequately pursued, monitored, recovered, and/or returned to the FEHBP, as required by Section 2.3(g) of Contract CS 2639, before writing them off.

Plan Response

The FEHBP Access+ HMO membership is included with the Plan's Commercial business which does not currently have special due diligence procedures in place to comply with Section 2.3(g) of Contract CS 2639. Under the BSC Commercial guidelines, the Plan sends only the initial notice of erroneous payment to the health care providers; the additional 30, 60, 90-day letters are not sent out.

The Plan will work with its contracting officer to resolve this compliance issue, either by obtaining a waiver or updating its internal procedures to return any write-off amount for this line of business.

B. ADMINISTRATIVE EXPENSES

1. Employee Compensation Overcharges \$147,007

Recommendation 10

We recommend that the contracting officer disallow \$145,091 for the questioned employee compensation costs that were net overcharged to the FEHBP for contract years 2017 through 2021. However, since we verified that the Plan subsequently returned \$8,365 of the questioned employee compensation costs to the FEHBP, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$136,726 (i.e., \$63,997 for 2018 and \$72,729 for 2020) to properly reduce filed administrative expenses for contract years 2018 and 2020.

Plan Response

The Plan agrees with this recommendation and will include the appropriate accounting adjustments for all years in the 2023 Annual Accounting Statement, to match reporting year with the prior period adjustment and return of funds for the questioned costs which took place on February 14, 2023.

Recommendation 11

We recommend that the contracting officer require the Plan to return \$1,916 to the FEHBP for the questioned LII calculated on the employee compensation overcharges. However, since we verified that the Plan subsequently returned \$1,916 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 indicated no additional action is necessary.

Recommendation 12

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 executive compensation costs are correctly limited and/or charged to the FEHBP.

Plan Response

The Plan agrees with this recommendation and will provide supporting documentation to the contracting officer which demonstrates that the necessary corrective actions have been implemented.

2. Unallowable and/or Unallocable Costs

\$124,441

Recommendation 13

We recommend that the contracting officer disallow \$119,713 for the questioned unallowable and/or unallocable costs that were charged to the FEHBP for contract years 2017 through 2020. However, since we verified that the Plan subsequently returned \$68,657 to the FEHBP for the questioned unallowable and/or unallocable costs, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$51,056 (i.e., \$26,800 for 2017, \$18,987 for 2018, and \$5,269 for 2020) to properly reduce filed administrative expenses for contract years 2017, 2018, and 2020.

Plan Response

The Plan agreed with this recommendation and included the appropriate accounting adjustments for all years in the 2022 Annual Accounting Statement, filed with OPM on March 31, 2023.

Recommendation 14

We recommend that the contracting officer require the Plan to return \$4,728 to the FEHBP for the questioned LII calculated on the unallowable and/or unallocable costs. However, since we verified that the Plan subsequently returned \$4,728 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 indicated no additional action is necessary.

Recommendation 15

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

Plan Response

The Plan agrees with this recommendation and will provide supporting documentation to the contracting officer which demonstrates that the necessary corrective actions have been implemented.

3. Blue Cross Blue Shield Association Dues

\$50,567

Recommendation 16

We recommend that the contracting officer disallow \$49,683 for the questioned Association dues that were overcharged to the FEHBP in contract years 2017 through 2020. However, since we verified that the Plan subsequently returned \$27,940 of the questioned Association dues to the FEHBP, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$21,743 (i.e., \$2,706 for 2017, \$5,414 for 2018, and \$13,623 for 2020) to properly reduce filed administrative expenses for contract years 2017, 2018, and 2020.

Plan Response

The Plan agreed with this recommendation and included the appropriate accounting adjustments for all years in the 2022 Annual Accounting Statement, filed with OPM on March 31, 2023.

Recommendation 17

We recommend that the contracting officer require the Plan to return \$884 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 \$884 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 indicated no additional action is necessary.

Recommendation 18

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 Association dues are properly charged to the FEHBP.

Plan Response

The Plan agrees with this recommendation and will provide supporting documentation to the contracting officer which demonstrates that the necessary corrective actions have been implemented.

C. CASH MANAGEMENT

None.

D. FRAUD AND ABUSE PROGRAM

1. Special Investigations Unit

Procedural

Recommendation 19

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 meet the communication and reporting requirements of fraud and abuse cases that are contained in FEHBP Carrier Letter 2017-13.

Plan Response

The Plan agrees with this recommendation. Feedback was provided to all SIU Investigators of how and when to report FEP HMO exposure of fraud, waste, and abuse. In addition, refresher training for OPM reporting was provided to all SIU Investigators. The Plan will provide supporting documentation to the contracting officer that demonstrates that the necessary corrective actions have been implemented.

PLAN NAME: Blue Shield of California

Don Speziale

Director, FEP

DocuSigned by:

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Signature

5/5/2023

Date Signed



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