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

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# Final Audit Report

**AUDIT OF  
ANTHEM INC.  
MASON, OHIO**

**Report Number 1A-10-18-16-009  
May 30, 2017**

OFFICE OF  
PERSONNEL MANAGEMENT

# EXECUTIVE SUMMARY

## *Audit of Anthem Inc.*

Report No. 1A-10-18-16-009

May 30, 2017

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

We conducted this limited scope audit to obtain reasonable assurance that Anthem Inc. (Anthem) 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. Specifically, our objectives were to determine if Anthem charged costs to the FEHBP and provided services to FEHBP members in accordance with the contract.

### **What did we audit?**

Our audit covered miscellaneous health benefit payments and credits from 2012 through June 30, 2015, as well as administrative expenses from 2012 through 2014. We also reviewed Anthem's cash management activities and practices related to FEHBP funds from 2012 through June 30, 2015, and Anthem's Fraud and Abuse (F&A) Program activities from January 1, 2015 through September 30, 2015. In addition, we expanded our audit scope to include questionable cost centers that were potentially charged to the FEHBP in 2010, 2011 and 2015, as part of administrative expenses.



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

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

We questioned \$3,024,520 in health benefit refunds and recoveries, net administrative expense overcharges, and lost investment income (LII). We also identified a procedural finding regarding Anthem's F&A Program. The BlueCross BlueShield Association (Association) and Anthem agreed with \$2,194,736 and disagreed with \$829,784 of the questioned amounts, and generally disagreed with the procedural finding.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$1,148,257 for health benefit refunds and recoveries that had not been returned to the FEHBP and \$5,979 for applicable LII. We verified that Anthem has returned \$329,044 of these questioned amounts to the FEHBP.
- Administrative Expenses – We questioned \$1,870,284 in net overcharges and applicable LII, consisting of \$1,147,874 in overcharges for unallowable and/or unallocable cost center expenses, \$632,790 in net overcharges for pension costs, and \$89,620 for LII on the overcharges. We verified that Anthem has returned \$1,865,692 of these questioned amounts to the FEHBP.
- Cash Management – The audit disclosed no findings pertaining to Anthem's cash management activities and practices. Overall, we determined that Anthem handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations.
- Fraud and Abuse Program – The Association and Anthem are *not* in total compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2014-29.

# ABBREVIATIONS

<b>Anthem Association</b>	<b>Anthem Inc.</b>
<b>BCBS</b>	<b>BlueCross BlueShield Association</b>
<b>CL</b>	<b>BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield</b>
<b>CFR</b>	<b>Carrier Letter</b>
<b>Contract</b>	<b>Code of Federal Regulations</b>
<b>█</b>	<b>Contract CS 1039</b>
<b>FAR</b>	<b>█</b>
<b>FEHB</b>	<b>Federal Acquisition Regulations</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEP</b>	<b>Federal Employees Health Benefits Program</b>
<b>FEPDO</b>	<b>Federal Employees Program</b>
<b>F&amp;A</b>	<b>Federal Employees Program Director's Office</b>
<b>FIMS</b>	<b>Fraud and Abuse</b>
<b>LOCA</b>	<b>Fraud Information Management System</b>
<b>LII</b>	<b>Letter of Credit Account</b>
<b>OIG</b>	<b>Lost Investment Income</b>
<b>OPM</b>	<b>Office of the Inspector General</b>
<b>SIU</b>	<b>U.S. Office of Personnel Management</b>
<b>SPI</b>	<b>Special Investigations Unit</b>
	<b>Special Plan Invoice</b>

# TABLE OF CONTENTS

	<u>Page</u>
<b>EXECUTIVE SUMMARY</b> .....	i
<b>ABBREVIATIONS</b> .....	ii
<b>I. BACKGROUND</b> .....	1
<b>II. OBJECTIVES, SCOPE, AND METHODOLOGY</b> .....	3
<b>III. AUDIT FINDINGS AND RECOMMENDATIONS</b> .....	9
<b>A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u></b> .....	9
1. Provider Audit/Auto Recoupment Write-Offs.....	9
2. Subrogation Recoveries .....	12
3. Fraud Recoveries .....	14
4. Hospital Settlements .....	17
5. Special Plan Invoices/Provider Audit Vendor Fees.....	19
<b>B. <u>ADMINISTRATIVE EXPENSES</u></b> .....	21
1. Unallowable and/or Unallocable Cost Centers.....	21
2. Pension Costs.....	25
<b>C. <u>CASH MANAGEMENT</u></b> .....	27
<b>D. <u>FRAUD AND ABUSE PROGRAM</u></b> .....	27
1. Special Investigations Unit .....	27
<b>IV. SCHEDULE A – QUESTIONED CHARGES</b>	

**APPENDIX:** BlueCross BlueShield Association’s Draft Report Response, dated February 13, 2017

## **REPORT FRAUD, WASTE, AND MISMANAGEMENT**

# I. BACKGROUND

This audit report details the findings, conclusions, and recommendations resulting from our limited scope audit of the Federal Employees Health Benefits Program (FEHBP) operations at Anthem Inc. (Anthem), which specifically included 14 BlueCross and/or BlueShield plans in California, Colorado, Connecticut, Georgia, Indiana, Kentucky, Maine, Missouri, Nevada, New Hampshire, New York, Ohio, Virginia, and Wisconsin. The Anthem headquarters are located in Indianapolis, Indiana; however, most of the financial, cost accounting, and cash management operations are located in Mason, Ohio.

The audit was performed by the U.S. Office of Personnel Management's (OPM) Office of the Inspector General (OIG), as established by the Inspector General Act of 1978, as amended.

The FEHBP was established by the Federal Employees Health Benefits (FEHB) Act (Public Law 86-382), enacted on September 28, 1959. The FEHBP was created to provide health insurance benefits for federal employees, annuitants, and dependents. OPM's Healthcare and Insurance Office has overall responsibility for administration of the FEHBP. The provisions of the FEHB Act are implemented by OPM through regulations, which are codified in Title 5, Chapter 1, Part 890 of the Code of Federal Regulations (CFR). Health insurance coverage is made available through contracts with various health insurance carriers.

The BlueCross BlueShield Association (Association), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (contract or 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. Anthem is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

The Association has established a Federal Employee Program (FEP<sup>1</sup>) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BCBS, located in Owings Mills, Maryland and Washington, D.C. These activities include acting as intermediary for claims processing between

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<sup>1</sup> Throughout this report, when we refer to "FEP", we are referring to the Service Benefit Plan lines of business at Anthem. When we refer to the "FEHBP", we are referring to the program that provides health benefits to federal employees.

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

Compliance with laws and regulations applicable to the FEHBP is the responsibility of the Association and Anthem management. Also, working in partnership with the Association, management of Anthem is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of Anthem (Report No. 1A-10-39-10-011, dated May 13, 2011), for contract years 2006 through 2008, have been satisfactorily resolved.

The results of this audit were provided to Anthem in written audit inquiries; were discussed with Anthem and/or Association officials throughout the audit and at an exit conference on September 20, 2016; and were presented in detail in a draft report, dated December 1, 2016. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### OBJECTIVES

The objectives of our audit were to determine whether Anthem charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract. Specifically, our objectives were as follows:

#### Miscellaneous Health Benefit Payments and Credits

- To determine whether miscellaneous payments charged to the FEHBP were in compliance with the terms of the contract.
- To determine whether credits and miscellaneous income relating to FEHBP benefit payments were returned timely to the FEHBP.

#### Administrative Expenses

- To determine whether administrative expenses charged to the contract were actual, allowable, necessary, and reasonable expenses incurred in accordance with the terms of the contract and applicable regulations.

#### Cash Management

- To determine whether Anthem handled FEHBP funds in accordance with applicable laws and regulations concerning cash management in the FEHBP.

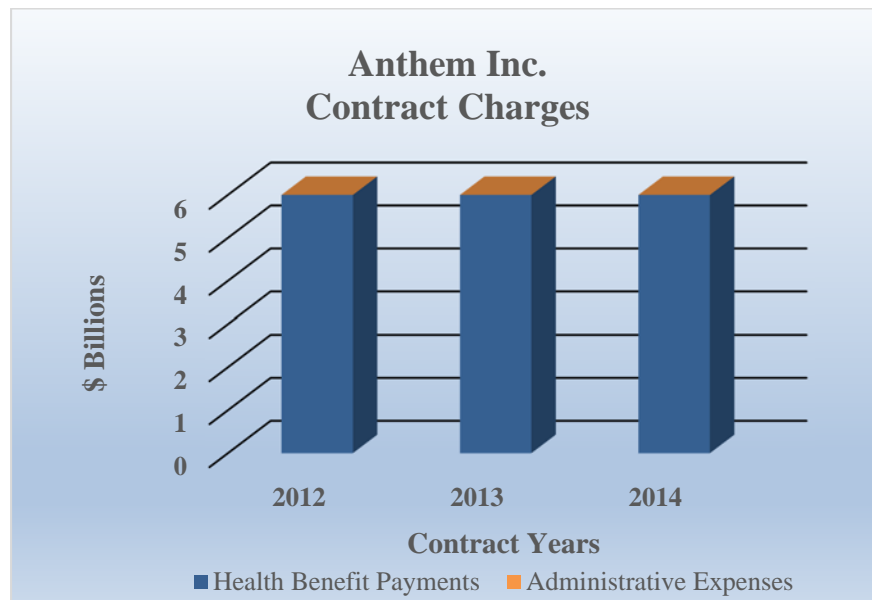
#### Fraud and Abuse Program

- To determine whether Anthem's communication and reporting of fraud and abuse cases were in compliance with the terms of Contract CS 1039 and FEHBP Carrier Letter 2014-29.

## **SCOPE**

We conducted our limited scope performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the BlueCross and BlueShield FEHBP Annual Accounting Statements as they pertain to plan codes 040/041 (California), 050/550 (Colorado), 060/560 (Connecticut), 100/600 (Georgia), 130/630 (Indiana), 160/660 (Kentucky), 180/680 (Maine), 241/741 (Missouri), 265/765 (Nevada), 270/770 (New Hampshire), 303/803/808 (Empire BCBS), 332/333/334/337/339/833/834 (Ohio), 423/923 (Virginia), and 450/950 (Wisconsin) for contract years 2012 through 2014. During this period, Anthem paid approximately \$17 billion in FEHBP health benefit payments and charged the FEHBP \$901 million in administrative expenses for these BCBS plans.



Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., refunds, subrogation recoveries, medical drug rebates, and fraud recoveries) and cash management activities from 2012 through June 30, 2015, as well as administrative expenses from 2012 through 2014. We also reviewed Anthem's Fraud and Abuse (F&A) Program activities and practices from January 1, 2015 through September 30, 2015. In addition, we expanded our audit scope to include questionable cost centers that were potentially charged to the FEHBP in 2010, 2011 and 2015, as part of administrative expenses.



In planning and conducting our audit, we obtained an understanding of Anthem'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 any significant matters involving Anthem's internal control structure and its operations. However, since our audit would not necessarily disclose all significant matters in the internal control structure, we do not express an opinion on Anthem's system of internal controls taken as a whole.

We also conducted tests to determine whether Anthem 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, Anthem did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that Anthem had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director's Office and Anthem. Due to time constraints, we did not verify the reliability of the data generated by the various information systems involved. However, while utilizing the computer-generated data during our audit, nothing came to our attention to cause us to doubt its reliability. We believe that the data was sufficient to achieve our audit objectives.

The audit was performed at Anthem's office in Mason, Ohio on various dates from March 1, 2016 through June 30, 2016. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania and Jacksonville, Florida through September 20, 2016. Throughout the audit process, Anthem did a good job providing complete and timely responses to our numerous requests for supporting documentation. We greatly appreciated Anthem's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

## **METHODOLOGY**

We obtained an understanding of the internal controls over Anthem's financial, cost accounting, and cash management systems by inquiry of Anthem officials.

We interviewed Anthem personnel and reviewed Anthem's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. For the period 2012 through June 30, 2015, we also judgmentally or statistically selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 540 FEP health benefit refund cash receipts, totaling \$45,069,011, and a statistical sample of 90 Georgia [REDACTED] FEP health benefit refund cash receipts, totaling \$1,077,345 (from a universe of 364,102 FEP refund receipt amounts, totaling \$196,314,984). Our high dollar sample included the 50 highest refund receipt amounts for each plan with total cash refund receipt universes of \$15 million or more and the 30 highest refund receipt amounts for each plan with cash refund receipt universes of less than \$15 million. In addition, our statistical sample included refunds selected from a stratification of Georgia [REDACTED] receipt amounts greater than \$250 but less than \$60,000.
- A high dollar sample of 125 FEP health benefit refunds returned via auto recoupments, totaling \$19,518,198 (from a universe of 149,551 FEP refunds returned via auto recoupments, totaling \$121,399,210). Our high dollar sample included the 50 highest auto recoupment amounts from Anthem's financial claims system and the 25 highest auto recoupment amounts from Anthem's Virginia, Georgia [REDACTED], and New York [REDACTED] systems.

Other Health Benefit Payments, Credits, and Recoveries

- 207 subrogation recoveries, totaling \$12,155,941, from a universe of 47,714 recoveries, totaling \$83,749,064. We selected all "[REDACTED]" subrogation recoveries of \$2,000 or more and the 10 highest "[REDACTED]" subrogation recoveries from each plan.
- 37 auto recoupment write-offs, totaling \$5,174,094, from a universe of 16,536 write-offs, totaling \$23,048,878. For this sample, we selected all [REDACTED] auto recoupment write-off amounts of \$100,000 or more, all "[REDACTED]" auto recoupment write-off amounts of \$50,000 or more, and all Georgia [REDACTED] write-off amounts of \$10,000 or more.
- 11 litigation settlements, totaling \$4,801,183 in FEP payments, from a universe of 50 settlements, totaling \$5,071,377 in FEP payments. Our sample included all FEP litigation settlements of \$60,000 or more.

- 20 hospital settlements, totaling \$4,401,091 in net FEP payments, from a universe of 503 settlements, totaling \$3,707,231 in net FEP payments. Our sample included the 10 highest settlement credit amounts and the 10 highest settlement payment amounts.
- 45 provider audit recoveries, totaling \$3,858,094, from a universe of 12,585 recoveries, totaling \$26,469,756. For this sample, we included all “██████████” provider audit recovery amounts of \$100,000 or more, all internal FEP audit recovery amounts of \$30,000 or more, and all “██████████” audit recovery amounts of \$30,000 or more. We also selected five corporate recoveries that were provided to us on Anthem’s schedule of “██████████” where there were no FEP recovery amounts.
- 64 high dollar special plan invoices (SPI), totaling \$3,507,637 in net FEP payments, from a universe of 3,461 SPI’s, totaling \$1,957,336 in net FEP payments. For this sample, we selected eight SPI’s with the highest dollar credit amounts and eight SPI’s with the highest dollar charge amounts from each year for SPI pay codes related to miscellaneous health benefit payments and credits. SPI’s are used by Anthem to process miscellaneous health benefit payment and credit transactions that do not involve primary claim payments or checks.
- 133 FEP medical drug rebate amounts, totaling \$3,385,548, from a universe of 455 FEP medical drug rebate amounts, totaling \$6,067,748. We selected the plans with the 4 highest medical drug rebate totals for the audit scope and then reviewed all 133 medical drug rebate amounts for these 4 plans.
- 101 fraud recoveries, totaling \$1,877,942, from a universe of 900 recoveries, totaling \$2,994,820. For this sample, we selected all fraud recoveries of \$6,500 or more.
- 10 provider settlements, totaling \$479,605 in net FEP credits, from a universe of 54 settlements, totaling \$604,970 in net FEP credits. For this sample, we selected the 10 highest provider settlement amounts regardless of whether the settlements were credit or payment amounts.
- 23 unidentified health benefit refunds, totaling \$129,319 in net FEP refunds, from a universe of 514 unidentified refunds, totaling \$126,367 in net FEP refunds. Our sample included all FEP refund amounts of \$1,000 or more.

We reviewed these samples to determine if health benefit refunds and recoveries were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. The results of these samples were not projected to the applicable universes of miscellaneous health benefit payments and credits.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2012 through 2014. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, pension, post-retirement, employee health benefits, non-recurring projects, prior period adjustments, and out-of-system adjustments (including Affordable Care Act fees).<sup>2</sup> Due to concerns that Anthem charged the FEHBP for 13 unallowable and/or unallocable cost centers for 2012 through 2014, we expanded our audit scope to also include administrative expenses for 2010, 2011 and 2015, relating to these cost centers. Accordingly, we reviewed Anthem's 2010, 2011, and 2015 cost center reports to determine if Anthem also charged these unallowable and/or unallocable cost center expenses to the FEHBP. We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of the administrative expense charges.

We reviewed Anthem's cash management activities and practices to determine whether Anthem handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed letter of credit account (LOCA) drawdowns, provider advances, working capital calculations, adjustments and/or balances, and interest income transactions from 2012 through June 30, 2015, as well as Anthem's dedicated FEP investment account activity during the scope and balances as of June 30, 2015.

We also interviewed Anthem's Special Investigations Unit regarding the effectiveness of the F&A Program, as well as reviewed Anthem's communication and reporting of fraud and abuse cases to test compliance with Contract CS 1039 and FEHBP Carrier Letter 2014-29.

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<sup>2</sup> Anthem allocated administrative expenses of \$ [REDACTED] to the FEHBP from [REDACTED] cost centers and [REDACTED] natural accounts. From this universe, we selected a judgmental sample of 126 cost centers to review, which totaled \$332,901,440 in expenses allocated to the FEHBP. We also selected a judgmental sample of 61 natural accounts to review, which totaled \$361,055,488 in expenses allocated to the FEHBP. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

### 1. Provider Audit/Auto Recoupment Write-Offs \$821,594

Our audit determined that Anthem (Georgia plan only) was not diligent in its efforts to recover \$3,772 for a claim overpayment identified through a provider audit. While researching this issue, we also found an additional \$817,822 in FEP claim overpayments that were originally setup to be auto recouped from providers but then written off after Anthem switched to a new claims system. According to contract CS1039, Anthem must make a prompt and diligent effort to recover erroneous benefit payments until the debt is paid in full or determined to be uncollectible. Until Anthem provides support that these claim overpayments were uncollectible, we can only conclude that Anthem did not make a diligent effort to recover these funds before writing them off. Therefore, Anthem should immediately recover and return \$821,594 to the FEHBP for these claim overpayments.

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 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.”

For the period 2012 through June 30, 2015, we identified 12,585 FEP provider audit recoveries, totaling \$26,469,756, for the Anthem BCBS plans. From this universe, we selected and reviewed a judgmental sample of 45 provider audits recoveries, totaling \$3,858,094, for the purpose of determining whether Anthem correctly calculated and returned FEP's portion of each recovery amount to the FEHBP. Our sample included provider audit recoveries of \$100,000 or more selected from Anthem's schedule of “[REDACTED]” recoveries, \$30,000 or more from Anthem's schedule of internal FEP audit recoveries, and \$30,000 or more from Anthem's schedule of “[REDACTED]” recoveries. We also selected five corporate recoveries that were provided to us on Anthem's schedule of “[REDACTED]” where there were no FEP recovery amounts.

**The Georgia plan did not make a diligent effort to recover \$821,594 in FEP claim overpayments.**

Based on our review, we determined that Anthem (Georgia plan only) was not diligent in its efforts to recover \$3,772 for a claim overpayment identified through a provider audit. Anthem originally set up an auto recoupment to recover \$34,747 from this provider. However, when Anthem received a refund check of \$30,975 from the provider, Anthem removed the auto recoupment from the Georgia plan's [REDACTED] claims system. Subsequently, Anthem then transitioned to a new claims system (" [REDACTED]"), but did not restore this auto recoupment to collect the remaining balance of \$3,772. While developing the above issue, we also identified an additional \$817,822 in FEP claim overpayments that were set up as auto recoupments on the [REDACTED] system but not transferred to the new "[REDACTED] [REDACTED]" claims system and subsequently just written off. As stated above, Anthem must make a prompt and diligent effort to recover erroneous benefit payments until the debt is paid in full or determined to be uncollectible.

Anthem informed us that the decision to write off most of these overpayment amounts was based on analytics with how many outstanding balances there were and the feasibility with trying to recoup these balances, based on the total number of outstanding balances. Therefore, our understanding is that Anthem never reached out to the providers to determine if these balances were uncollectible. Until Anthem provides support that these claim overpayments were actually uncollectible, we can only conclude that Anthem did not make a diligent effort to recover these funds before writing them off. Therefore, Anthem should immediately recover and return \$821,594 to the FEHBP for these claim overpayments.

**Association Response:**

***The Association disagrees with this finding. The Association states that "the Plan contends that these accounts were uncollectible when they were written off."***

***The Association also states, "In support of its position . . . the Plan conducted a sample of the accounts written off to determine if the Plan performed adequate due diligence prior to writing the claims off."***

***The Association separated the \$1,341,609 costs questioned in the draft report into the following categories:***

- ***Category 1: \$151,996*** – *This category includes refunds that were returned to the FEHBP but did not have a claim to be adjusted. The Association states, “The Plan sampled the top 50 refunds and determined that the Plan fully recovered and returned the refund amount to the Program.”*
- ***Category 2: \$1,189,613*** - *Claim overpayments that the Plan set-up for collection via offsets against future claim payments to the affected providers during the period 2004 through 2014. The Association states, “The Plan’s position is that the setup of the Provider’s for overpayment recovery thru future claims offset supports the Plan’s due diligence efforts to recover the overpayments ranging in age between 130 days up to 3,827 days. The Plan determined prior to the write off (as indicated in CS 1039, Section 2.3(g)(5)) that it was no longer cost effective to pursue further collection efforts or that it would be against equity and good conscience to continue collection efforts.” In addition, the Association stated that there were several claim overpayments in this category that were under a \$100.*

*The Association states, “The Plan sampled the top 50 line items by dollar amount (\$165,911.22), and found that adequate due diligence was performed on 39 of the 50 items sampled (\$126,168.22) . . . Of the 39 overpayments where the Plan performed due diligence, the Plan recovered 25 of these overpayments totaling \$83,592.13 . . . There were 3 miscellaneous overpayments in the sample that were erroneously set up for offset in the amount of \$5,260.73 and the funds are not due back to OPM . . . For the remaining 8 overpayments (\$34,482.27) sampled, the Plan set up the Providers for offset during the years 2011-2014 in an effort to recover the overpayment against future claim payments to the Providers. The Plan’s position is that the setup of the Provider offsets supports the Plan’s due diligence in the Plan’s effort to recover the overpayments aging between 193 days up to 1,298 days. Lastly, the Plan determined prior to the write off, as required in Section 2.3(g)(5) of CS 1039 that it was no longer cost effective to pursue further collection efforts or that it would have been against equity and good conscience to continue collection efforts.”*

**OIG Comment:**

Based on our review of the Association’s response and additional documentation provided by Anthem, we revised the amount questioned from the draft report to \$821,594. We adjusted the questioned costs by removing items that were not auto recoupments and/or already returned to the LOCA, as well as removed all amounts that were less than \$100.

For the remaining questioned amount, the Association and/or Anthem did not provide adequate documentation to support that the amounts were uncollectable from the providers. For example, did the providers go out of business? In addition, the Association and/or Anthem did not provide an analysis that supports the assertion that it was no longer cost effective to pursue the collection of these claim overpayments. What is the cost associated with maintaining an auto recoupment on Anthem's claims system? Our general understanding is that these auto recoupments were initially set up on the Georgia plan's [REDACTED] system but not transferred to the new "[REDACTED]" claims system and then subsequently just written off. What is Anthem's internal write-off policy for auto recoupments? If Anthem had not switched systems, would these auto recoupments have been written off based on Anthem's internal write-off policy? These are the types of questions Anthem has not addressed and/or provided adequate support for to justify these auto recoupment write-offs. In our opinion, this appears to be a situation where Anthem just decided to write off these auto recoupments to avoid restoring them in the new "[REDACTED]" claims system. If so, this would not be an adequate reason for not continuing the recovery efforts for these overpayments. Therefore, we continue to conclude that Anthem did not make a diligent effort to recover these claim overpayments through auto recoupments before writing them off.

### **Recommendation 1**

We recommend that the contracting officer require Anthem to return \$821,594 to the FEHBP for the claim overpayments that were written off by Anthem without adequate support and/or justification whether recovered or not, as a diligent effort to recover was not made.

## **2. Subrogation Recoveries \$174,063**

Our audit determined that Anthem had not returned seven subrogation recoveries, totaling \$172,896, to the FEHBP as of June 30, 2015. Anthem subsequently returned these recoveries to the FEHBP late and after receiving our audit notification letter. Also, Anthem untimely deposited one of these subrogation recoveries into the FEP investment account, resulting in lost investment income (LII) of \$1,167. As a result of our audit, Anthem returned \$174,063 to the FEHBP, consisting of \$172,896 for the questioned subrogation recoveries and \$1,167 for LII on the funds deposited untimely into the FEP investment account.

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



days after receipt by the Carrier.” Also, based on an agreement between OPM and the Association, dated March 26, 1999, BCBS plans have 30 days to return health benefit refunds and recoveries to the FEHBP before LII will commence to be assessed.

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 as provided in 41 U.S.C. 7109, which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid.”

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 identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

For the period 2012 through June 30, 2015, there were 47,714 FEP subrogation recoveries totaling \$83,749,064. From this universe, we selected and reviewed a judgemental sample of 207 subrogation recoveries, totaling \$12,155,941, for the purpose of determining if Anthem timely returned these recoveries to the FEHBP. Our sample included all “██████████” subrogation recoveries of \$2,000 or more and the 10 highest “██████████” subrogation recoveries for each Anthem BCBS plan during the audit scope. “██████████” and “██████████” are vendors that provide subrogation services to Anthem, such as identifying, investigating, and recovering potential subrogation recoveries.

**Anthem returned subrogation recoveries of \$172,896 to the FEHBP from 523 to 1,670 days late and after the audit notification date.**

Based on our review, we determined that Anthem had not returned seven subrogation recoveries, totaling \$172,896, to the LOCA as of June 30, 2015 (end of audit scope). Anthem subsequently returned these recoveries to the FEHBP from 523 to 1,670 days late and after receiving our audit notification letter (dated July 1, 2015).

Therefore, we are questioning this amount as a monetary finding. Additionally, Anthem untimely deposited one of these subrogation recoveries into the FEP investment account, resulting in LII of \$1,167. In total, we are questioning \$174,063 for this audit finding, consisting of \$172,896 for the questioned subrogation recoveries and \$1,167 for LII on the funds deposited untimely into the FEP investment account.

The following schedule is a summary of the questioned subrogation recoveries and LII by Anthem BCBS plan (in alphabetical order by State).

Anthem BCBS Plan	Number of Recoveries	Questioned Recoveries	Questioned LII	Total Questioned
Missouri	1	\$51,665	\$1,167	\$52,832
Virginia	6	121,231	0	121,231
<b>Total</b>	<b>7</b>	<b>\$172,896</b>	<b>\$1,167</b>	<b>\$174,063</b>

**Association Response:**

*The Association and Anthem agree with this finding.*

**OIG Comment:**

We verified that Anthem returned \$174,063 to the FEHBP, consisting of \$172,896 for the questioned subrogation recoveries and \$1,167 for applicable LII.

**Recommendation 2**

We recommend that the contracting officer require Anthem to return \$172,896 to the FEHBP for the questioned subrogation recoveries. However, since we verified that Anthem returned \$172,896 to the FEHBP for these questioned recoveries, no further action is required for this amount.

**Recommendation 3**

We recommend that the contracting officer require Anthem to return \$1,167 to the FEHBP for LII on the subrogation recovery funds that were deposited untimely into the FEP investment account. However, since we verified that Anthem returned \$1,167 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**3. Fraud Recoveries **\$91,028****

Our audit determined that Anthem had not returned seven fraud recoveries, totaling \$83,192, to the FEHBP as of June 30, 2015. Anthem subsequently returned these fraud recoveries to the FEHBP from 715 to 1,566 days late and after receiving our audit notification letter. Also, we determined that Anthem has not made a diligent effort to recover the remaining balance on an auto recoupment that was set up to recover a claim

overpayment made to a provider. As a result, \$3,598 for this claim overpayment has been outstanding for more than two years and is potentially at risk of being uncollectible. In total, we are questioning \$91,028 for this audit finding, consisting of \$83,192 for fraud recoveries that were untimely returned to the FEHBP after audit notification, \$3,598 for an auto recoupment balance that has been outstanding for more than two years, and \$4,238 for applicable LII on the funds returned untimely to the FEHBP.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier.

Contract CS 1039, Part II, Section 2.3 (g) states, “If the Carrier 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.”

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

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

For the period 2012 through June 30, 2015, we identified 900 FEP fraud recoveries totaling \$2,994,820. From this universe, we selected and reviewed a judgmental sample of 101 fraud recoveries, totaling \$1,877,942, for the purpose of determining if Anthem timely returned these recoveries to the FEHBP. Our sample included all fraud recoveries of \$6,500 or more.

Based on our review, we noted the following exceptions:

- Anthem had not returned seven fraud recoveries, totaling \$83,192, to the FEHBP as of June 30, 2015 (end of audit scope). Anthem subsequently returned these fraud recoveries to the FEHBP from 715 to 1,566 days late and after receiving our audit notification letter (dated July 1, 2015). Since Anthem returned these recoveries to the FEHBP late and after receiving our audit notification letter, we are questioning this amount as a monetary finding, as well as LII for not returning these funds timely to the FEHBP.

- Anthem has a remaining balance of \$3,598 for an auto recoupment that was set up to recover a claim overpayment made to a provider. This outstanding amount was part of a larger overpayment amount of \$14,659 for which the last auto recoupment was made by Anthem on June 19, 2014. After more than two years later, Anthem still has not recovered this remaining balance. Therefore, we concluded that Anthem has not made a diligent effort to recover these remaining funds from the provider. Since this overpayment has been outstanding for more than two years and is potentially at risk of being uncollectible, Anthem should immediately contact the provider to recover and return these funds to the FEHBP.

In total, we are questioning \$91,028 for this audit finding, consisting of \$83,192 for fraud recoveries that were untimely returned to the FEHBP after audit notification, \$3,598 for an auto recoupment balance that has been outstanding for more than two years, and \$4,238 for applicable LII. The following schedule is a summary of the questioned fraud recoveries (including the outstanding auto recoupment balance) and LII by Anthem BCBS plan (in alphabetical order by State).

Anthem BCBS Plan	Number of Recoveries	Questioned Recoveries	Questioned LII	Total Questioned
Colorado	1	\$3,491	\$296	\$3,787
Georgia	3	28,631	1,184	29,815
New York	2	17,690	795	18,485
Ohio	1	28,742	1,564	30,306
Virginia	1	8,236	399	8,635
<b>Total</b>	<b>8</b>	<b>\$86,790</b>	<b>\$4,238</b>	<b>\$91,028</b>

**Association Response:**

*The Association states that Anthem disagrees with the questioned amount of \$3,598 for the outstanding auto recoupment. The Association states, “The Plan notes that in February, March, and May of 2014 the Plan’s recovery area set up auto recoupments to recover the questioned funds from future remittances. The Plan successfully recouped \$11,060.61 . . . The Provider has not submitted claims since July 2014; however, the Plan continues to maintain the auto recoup feature for the Provider, which will flag any future claims payments due to the Provider for offset. Please see the support . . . which shows that the auto recoups totaling \$3,598.11 were still outstanding as of January 3, 2017. The Plan’s position is that the setup of the offsets supports their diligent efforts to recover the overpayments that ranged in age between 982 days and 1,036 days, as of January 27, 2017.”*

**OIG Comment:**

We verified that Anthem returned \$87,430 to the FEHBP, consisting of \$83,192 for the questioned fraud recoveries and \$4,238 for LII on these recoveries. However, the FEHBP is still due \$3,598 for an auto recoupment balance that has been outstanding for over two years. The Association did not provide documentation to support that Anthem had ever reached out to the provider (e.g., mailed a letter requesting a refund) to recover the remaining amount due; therefore, we continue to conclude that Anthem has not made a diligent effort to recover these funds from the provider. Since this overpayment amount of \$3,598 has been outstanding for more than two years and is potentially at risk of being uncollectible, Anthem should immediately contact the provider to recover and return these funds to the FEHBP.

**Recommendation 4**

We recommend that the contracting officer require Anthem to return \$86,790 to the FEHBP for the questioned fraud recoveries. However, since we verified that Anthem returned \$83,192 of these questioned recoveries to the FEHBP, the contracting officer only needs to ensure that Anthem returns \$3,598 to the FEHBP (even if not recovered, as a diligent effort was not made) for the overpayment that has been outstanding for more than two years.

**Recommendation 5**

We recommend that the contracting officer require Anthem to return \$4,238 to the FEHBP for LII on the questioned fraud recoveries. However, since we verified that Anthem returned \$4,238 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**4. Hospital Settlements**

**\$66,665**

Our audit determined that Anthem (Virginia plan only) had not returned two hospital settlement recovery amounts, totaling \$66,147, to the FEHBP as of June 30, 2015. Anthem subsequently returned these recovery amounts to the FEHBP from 105 to 155 days late and after receiving our audit notification letter. In total, Anthem returned \$66,665 to the FEHBP for this audit finding, consisting of \$66,147 for the questioned hospital settlement recoveries and \$518 for LII on these recoveries.

As previously cited from Contract CS 1039, all health benefit refunds and recoveries must be deposited into the FEP investment account within 30 days and returned to the FEHBP within 60 days after receipt by the Carrier.

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

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

For the period 2012 through June 30, 2015, we identified 503 hospital settlements totaling \$3,707,231 in net FEP payments. From this universe, we selected and reviewed a judgmental sample of 20 hospital settlements, totaling \$4,401,091 in net FEP payments, for the purpose of determining whether Anthem properly calculated, charged and/or credited these settlement amounts to the FEHBP. Our sample included the 10 highest settlement recovery amounts, totaling \$480,802, and the 10 highest settlement payment amounts, totaling \$4,881,893.

**The Virginia plan returned hospital settlement recoveries of \$66,147 to the FEHBP from 105 to 155 days late and after receiving our audit notification letter.**

Based on our review, we determined that Anthem (Virginia plan only) had not returned two hospital settlement recoveries, totaling \$66,147, to the FEHBP as of June 30, 2015 (end of audit scope). Anthem subsequently returned these settlement recovery amounts to the LOCA from 105 to 155 days late and after receiving our audit notification letter (dated July 1, 2015). Therefore we are questioning this amount as a monetary finding. Additionally, Anthem untimely deposited these hospital settlements into the FEP investment account, resulting in LII of \$518. In total, we are questioning \$66,665 for this audit finding, consisting of \$66,147 for the questioned hospital settlement recoveries and \$518 for applicable LII on these recoveries.

**Association Response:**

***The Association and Anthem agree with this finding.***

**OIG Comment:**

We verified that Anthem returned \$66,665 to the FEHBP, consisting of \$66,147 for the questioned hospital settlement recoveries and \$518 for applicable LII on these recoveries.

**Recommendation 6**

We recommend that the contracting officer require Anthem to return \$66,147 to the FEHBP for the questioned hospital settlement recoveries. However, since we verified that Anthem returned \$66,147 to the FEHBP for these questioned recoveries, no further action is required for this amount.

**Recommendation 7**

We recommend that the contracting officer require Anthem to return \$518 to the FEHBP for LII on the questioned hospital settlement recoveries. However, since we verified that Anthem returned \$518 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**5. Special Plan Invoices/Provider Audit Vendor Fees \$886**

During our review of SPI's, we identified that Anthem (Virginia plan only) paid a commission fee to a provider audit vendor for an FEP recovery that was not realized, resulting in an overcharge of \$830 to the FEHBP. As a result of this audit finding, Anthem returned \$886 to the FEHBP, consisting of \$830 for the questioned provider audit vendor fee and \$56 for applicable LII.

Contract CS 1039, Part III, Section 3.2 (i) states, "The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable."

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

According to Anthem's provider audit service contract, the vendor is compensated for each provider audit based on fees calculated by applying a predetermined commission percentage to the overpayments identified and recovered. Therefore, the vendor should only charge Anthem for provider audits resulting in actual claim overpayment recoveries. If there are no claim overpayment recoveries, then there should be no charge to Anthem and no charge to the FEHBP.

For the period 2012 through June 30, 2015, there were 3,461 SPI's, totaling \$1,957,336 in net FEP payments, for the Anthem BCBS plans. From this universe, we selected and reviewed a judgmental sample of 64 SPI's, totaling \$3,507,637 in net FEP payments, for the purpose of determining whether Anthem properly calculated, charged and/or credited these SPI amounts to the FEHBP. For the scope of the audit, we judgmentally selected the SPI's with the eight highest FEP payment amounts and the SPI's with the eight highest FEP credit amounts from each year for the SPI pay codes related to miscellaneous health benefit payments and credits.

Based on our review of these SPI's, we noted only one exception pertaining to the Virginia plan, regarding an inappropriate provider audit vendor fee that was charged to the FEHBP. Specifically, we identified a provider audit where the vendor inadvertently applied the commission percentage to an identified overpayment even though no actual recovery occurred. Since there was no recovery for this identified overpayment, the vendor charge of \$830 for this overpayment is not chargeable to the FEHBP. As a result of this audit finding, Anthem returned \$886 to the FEHBP, consisting of \$830 for the questioned provider audit vendor fee and \$56 for applicable LII.

**Association Response:**

*The Association and Anthem agree with this finding.*

**OIG Comment:**

We verified that Anthem returned \$830 to the FEHBP for the provider audit vendor fee and \$56 in applicable LII.

**Recommendation 8**

We recommend that the contracting officer disallow \$830 for the provider audit vendor fee that was not chargeable to the FEHBP. However, since we verified that Anthem returned \$830 to the FEHBP for the questioned provider audit vendor fee, no further action is required for this amount.

**Recommendation 9**

We recommend that the contracting officer require Anthem to return \$56 to the FEHBP for LII on the questioned provider audit vendor fee. However, since we verified that Anthem returned \$56 to the FEHBP for the questioned LII, no further action is required for this LII amount.



## **B. ADMINISTRATIVE EXPENSES**

### **1. Unallowable and/or Unallocable Cost Centers**

**\$1,195,946**

Anthem charged unallowable and/or unallocable cost center expenses of \$1,147,874 to the FEHBP from 2010 through 2015. As a result, we are questioning \$1,195,946 for this audit finding, consisting of \$1,147,874 for these unallowable and/or unallocable cost center expenses and \$48,072 for applicable LII.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be 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 Carrier should include simple interest from the date due.

For the period 2012 through 2014, Anthem allocated administrative expenses of \$713,244,238 (before out-of-system adjustments) to the FEHBP from 996 cost centers for the 14 Anthem BCBS plans. From this universe, we selected a judgmental sample of 126 cost centers to review, which totaled \$332,901,440 in expenses allocated to the FEHBP. We selected these cost centers based on high dollar amounts, a trend analysis, and our nomenclature review. We reviewed the expenses from these cost centers for allowability, allocability, and reasonableness.

**Anthem charged \$1,147,874 to the FEHBP for cost center expenses that were unallowable and/or unallocable.**

Based on our review, we determined that Anthem allocated and charged expenses to the FEHBP from 13 cost centers during the period 2012 through 2014 that were expressly unallowable and/or did not benefit the FEHBP (unallocable). As a result, we expanded our review to also include the expenses that were charged to the FEHBP in 2010, 2011, and 2015 for these questionable cost centers.

The following schedule is a summary of these questioned cost center expenses that were inappropriately charged to the FEHBP from 2010 through 2015.

Cost Center Number	Cost Center Name	Reason for Questioning	Amount Questioned
[REDACTED]	[REDACTED]	Unallocable	\$384,423
[REDACTED]	[REDACTED]	Unallocable	244,926
[REDACTED]	[REDACTED]	Unallocable	157,502
[REDACTED]	[REDACTED]	Unallocable	130,073
[REDACTED]	[REDACTED]	Unallocable	72,827
[REDACTED]	[REDACTED]	Unallocable	50,411
[REDACTED]	[REDACTED]	Unallocable	46,593
[REDACTED]	[REDACTED]	Unallocable	18,522
[REDACTED]	[REDACTED]	Unallocable	17,865
[REDACTED]	[REDACTED]	Unallowable	9,199
[REDACTED]	[REDACTED]	Unallocable	8,859
[REDACTED]	[REDACTED]	Unallowable	3,970
[REDACTED]	[REDACTED]	Unallocable	2,704
<b>Total</b>			<b>\$1,147,874</b>

In regard to the questioned expenses charged to the FEHBP, 48 CFR 31.205-1 (public relations and advertising costs) and 48 CFR 31.205-27 (organization costs) also provide specific criteria to the extent that such costs are expressly unallowable.

In total, we are questioning \$1,195,946 for this audit finding, consisting of \$1,147,874 for unallowable and/or unallocable cost center expenses that were charged to the FEHBP from 2010 through 2015 and \$48,072 for LII. The following schedule is a summary of these questioned cost center charges and applicable LII by Anthem BCBS plan (in alphabetical order by State).

<b>Anthem BCBS Plan</b>	<b>Questioned Charges</b>	<b>Questioned LII</b>	<b>Total Questioned</b>
California	\$112,223	\$3,482	\$115,705
Colorado	61,686	2,133	63,819
Connecticut	15,917	340	16,257
Georgia	458,224	25,422	483,646
Indiana	53,036	1,926	54,962
Kentucky	56,359	2,435	58,794
Maine	13,757	292	14,049
Missouri	23,211	485	23,696
Nevada	21,778	721	22,499
New Hampshire	12,896	273	13,169
New York	63,304	2,723	66,027
Ohio	59,974	1,277	61,251
Virginia	172,769	6,084	178,853
Wisconsin	22,740	479	23,219
<b>Total</b>	<b>\$1,147,874</b>	<b>\$48,072</b>	<b>\$1,195,946</b>

**Association Response:**

*The Association states that the Plan agrees with the questioned cost center charges of \$1,143,282 for 2011 through 2015, but disagrees with the questioned cost center charges of \$4,592 for 2010. The Association also states that “the Plan’s position is that the 2010 questioned costs are considered beyond the scope of the audit based on Section 4.4(C) of Contract CS 1039. This section states . . . ‘a claim seeking, as a matter of right, the payment of money, in a sum certain pursuant to 48 CFR section 52.233-1, shall not be made more than five years following the last day prescribed by the contract for filing the calendar year Annual Accounting Statement for the year with respect to which the claim arises. A claim includes, in the case of the carrier, a charge against the contract.’”*

*The Association also states, “The Plan agrees with \$48,072 for lost investment income for the contracts years 2011-2015 and disagrees that the Program is due lost investment income for the 2010 contract year as this contract year is out of scope per CS 1039 . . . The Plan has returned \$48,072 to the Program for Contract years 2011-2015 . . . .”*

### **OIG Comment:**

We verified that Anthem returned \$1,191,354 of the questioned amounts to the FEHBP (representing amounts Anthem agrees with), consisting of \$1,143,282 for the questioned unallowable and/or unallocable cost center charges for 2011 through 2015 and \$48,072 for applicable LII on these questioned charges.

As a rationale for disagreeing with the questioned cost center charges for 2010, Anthem referenced Section 4.4 (c) of CS 1039 that states, "A claim seeking, as a matter of right, the payment of money, in a sum certain, pursuant to 48 CFR section 52.233-1, shall not be made more than five years following the last day prescribed by the contract for filing the calendar year Annual Accounting Statement for the year with respect to which the claim arises. A claim includes, in the case of the carrier, a charge against the contract." We are surprised by Anthem's response to these questioned charges for 2010, since Anthem agreed during our fieldwork phase that these charges were unallowable and/or unallocable to the FEHBP. Also, in response to our audit notification and throughout the pre-audit and fieldwork phases, there were no objections by the Association and Anthem regarding the possibility of including contract year 2010 in the audit scope.<sup>3</sup> In our opinion, since we started the audit fieldwork phase (on March 1, 2016) less than five years from the 2010 AAS filing date (April 28, 2011), these questioned cost center charges for 2010 should be within the permissible audit scope and returned to the FEHBP too.

### **Recommendation 10**

We recommend that the contracting officer disallow \$1,147,874 for the questioned unallowable and/or unallocable cost center expenses charged to the FEHBP from 2010 through 2015. However, since we verified that Anthem returned \$1,143,282 to the FEHBP for the 2011 through 2015 questioned cost center charges, the contracting officer only needs to ensure that Anthem returns \$4,592 to the FEHBP for the 2010 questioned charges, if determined appropriate to do so.

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<sup>3</sup> In the audit notification letter, we clearly noted that if significant overcharges were identified for 2012 through 2014, we may expand our audit scope to also include contract years 2010 and/or 2011. We also noted that we were planning to start the audit fieldwork by March 1, 2016.

## **Recommendation 11**

We recommend that the contracting officer require Anthem to return \$48,072 to the FEHBP for LII on the questioned unallowable and/or unallocable cost center expenses that were charged to the FEHBP from 2011 through 2015. We also recommend that the contracting officer require Anthem to calculate and return applicable LII on the questioned unallowable and/or unallocable cost center expenses that were charged to the FEHBP for 2010. However, since we verified that Anthem returned \$48,072 to the FEHBP for the LII on the 2011 through 2015 questioned charges, the contracting officer only needs to ensure that Anthem calculates and returns to the FEHBP the applicable LII on the 2010 questioned charges, if determined appropriate to do so.

## **2. Pension Costs**

**\$674,338**

Anthem overcharged the FEHBP \$632,790 (net) for pension costs in 2012 and 2013. Specifically, Anthem undercharged the FEHBP \$135,315 in 2012 and overcharged the FEHBP \$768,105 in 2013 for pension costs. As a result of our audit, Anthem returned \$674,338 to the FEHBP for this audit finding, consisting of \$632,790 for net pension cost overcharges and \$41,548 for applicable LII.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable.

48 CFR 31.205-6(j)(1) states, "Pension plans are normally segregated into two types of plans: defined-benefit and defined-contribution pension plans. The contractor shall measure, assign, and allocate the costs of all defined-benefit pension plans and the costs of all defined-contribution pension plans in compliance with 48 CFR 9904.412 (Cost Accounting Standard for Composition and Measurement of Pension Cost) and 48 CFR 9904.413 (Adjustment and Allocation of Pension Cost). Pension costs are allowable subject to the referenced standards and the cost limitations and exclusions set forth in paragraph (j)(1)(i) and in paragraphs (j)(2) through (j)(6) of this subsection."

In general, the FAR limits the amount of pension cost that may be charged to a government contract to the amount of any cash contribution to the pension fund trustee, or the amount of expense calculated in accordance with Cost Accounting Standard (CAS) 412 and 413, whichever is lower. All cash contributions must be made by the time set for filing of the Federal income tax return or any extension.

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

For the period 2012 through 2014, Anthem allocated \$1,665,407 to the FEP for pension costs. We reviewed the FEP pension costs to determine if the amounts were properly charged to the FEHBP in accordance with the contract and applicable federal regulations.

**Anthem overcharged the FEHBP a net of \$632,790 for pension costs.**

Based on our review, we determined that Anthem used the incorrect funded amounts when calculating the 2012 and 2013 FEP pension costs, thus impacting Anthem’s selection of the lower of the CAS amounts or cash contributions. Specifically, Anthem inadvertently used the 2011 funded amount of \$26,231,752 instead of the actual 2012 funded amount of \$32,100,000 when determining the 2012 FEP pension costs. Also, Anthem used the 2012 funded amount of \$32,100,000 instead of the actual 2013 funded amount of \$0 when determining the 2013 FEP pension costs. Because of these errors, Anthem undercharged the FEHBP \$135,315 in 2012 and overcharged the FEHBP \$768,105 in 2013 for pension costs, resulting in net pension cost overcharges of \$632,790 to the FEHBP.

In total, we are questioning \$674,338 for this audit finding, consisting of \$632,790 for net pension cost overcharges and \$41,548 for applicable LII. The following schedule is a summary of these questioned charges and applicable LII by Anthem BCBS plan (in alphabetical order by State).

Anthem BCBS Plan	Questioned Charges 2012	Questioned Charges 2013	Questioned LII	Total Questioned
California	(\$8,844)	\$51,037	\$2,761	\$44,954
Colorado	(9,363)	53,334	2,885	46,856
Connecticut	(4,752)	26,915	1,456	23,619
Georgia	(18,314)	103,902	5,620	91,208
Indiana	(9,569)	53,165	2,876	46,472
Kentucky	(8,283)	45,483	2,460	39,660
Maine	(4,135)	23,642	1,279	20,786
Missouri	(5,519)	32,586	1,763	28,830
Nevada	(3,249)	18,733	1,013	16,497
New Hampshire	(3,781)	21,753	1,177	19,149
New York	(10,332)	59,890	3,239	52,797
Ohio	(15,813)	88,168	4,769	77,124
Virginia	(27,538)	156,123	8,445	137,030
Wisconsin	(5,823)	33,374	1,805	29,356
<b>Total</b>	<b>(\$135,315)</b>	<b>\$768,105</b>	<b>\$41,548</b>	<b>\$674,338</b>

**Association Response:**

*The Association and Anthem agree with this finding.*

**OIG Comment:**

We verified that Anthem returned \$674,338 to the FEHBP, consisting of \$632,790 for net pension cost overcharges and \$41,548 for LII on the overcharges.

**Recommendation 12**

We recommend that the contracting officer disallow \$632,790 (net) for pension costs that were overcharged to the FEHBP. However, since we verified that Anthem returned \$632,790 to the FEHBP for the questioned pension costs, no further action is required for this amount.

**Recommendation 13**

We recommend that the contracting officer require Anthem to return \$41,548 to the FEHBP for LII on the questioned pension costs. However, since we verified that Anthem returned \$41,548 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**C. CASH MANAGEMENT**

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

**D. FRAUD AND ABUSE PROGRAM**

**1. Special Investigations Unit**

**Procedural**

**Anthem and FEPDO did not report, or did not timely report, all fraud and abuse cases to the OIG.**

Anthem and the Association's FEP Director's Office (FEPDO) are not in total compliance with the communication and reporting requirements for fraud and abuse cases set forth in FEHBP Carrier Letter (CL) 2014-29. Specifically, Anthem and the FEPDO did not report, or did not timely report, all fraud and abuse cases to the OIG's Office of

Investigations. This non-compliance may be due in part to untimely reporting of fraud and abuse cases to the FEPDO by Anthem, as well as inadequate controls at the FEPDO to monitor and communicate Anthem's cases to the OIG. Without awareness of these existing potential fraud and abuse issues, the OIG cannot investigate the broader impact of these potential issues on the FEHBP as a whole.

CL 2014-29 (Office of Personnel Management Federal Employees Health Benefits Fraud, Waste and Abuse), dated December 19, 2014, states that all Carriers "are required to submit a written notification to OPM-OIG within 30 working days when there is a potential reportable FWA [fraud, waste or abuse] that has occurred against the FEHB Program. OPM-OIG considers a potential reportable FWA as, after a preliminary review of the complaint, the carrier takes an affirmative step to investigate the complaint." There is no dollar threshold for this requirement.

The FEPDO is primarily responsible for timely reporting fraud and abuse cases to the OIG (i.e., within 30 working days of becoming aware of a fraud, waste, or abuse issue). In order to comply with the timeliness requirement, the FEPDO requires the BCBS plans to enter fraud and abuse cases into the Fraud Information Management System (FIMS). FIMS is a multi-user, web-based FEP case-tracking database that the FEPDO's Special Investigations Unit (SIU) developed in-house. FIMS is used by the local BCBS plans' SIUs and the FEPDO's SIU to track and report potential fraud and abuse activities. The FEPDO is responsible for the maintenance and oversight of this system as well as reporting to the OIG all fraud and abuse cases that are entered into FIMS by the local BCBS plans.

For the period January 1, 2015, through September 30, 2015, Anthem opened 87 fraud and abuse cases with potential FEP exposure. From this universe, we selected and reviewed a judgmental sample of 26 cases for the purpose of determining if Anthem and the FEPDO timely reported these cases to the OIG. Based on our review of these 26 cases, we determined that the FEPDO did not report 6 cases to the OIG and untimely reported 4 cases. The remaining 16 cases were either timely reported to the OIG or did not require OIG notification. In addition, we found that Anthem untimely reported five cases into FIMS, which may have contributed to the FEPDO not reporting or not timely reporting cases to the OIG.

Ultimately, both Anthem's untimely reporting of potential FEP cases to the FEPDO's SIU, and the FEPDO SIU's inadequate controls to monitor Anthem's FIMS entries, and notify the OIG, have resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2014-29. Timely case notifications allow the OIG to investigate whether other FEHBP Carriers are exposed to the identified potential



fraudulent activity. Consequently, the untimely or lack of OIG notification may result in additional improper payments being made by other FEHBP Carriers.

#### **Recommendation 14**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that Anthem has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29. We also recommend that the contracting officer instruct the Association to provide Anthem with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.

#### **Association Response:**

*The Association states, “The Plan SIU has updated their antifraud plan to ensure the communication and reporting requirements meet the requirements contained in the OPM Carrier Letter. The Association has implemented a new system, [REDACTED], [REDACTED], January 9, 2017. The [REDACTED] is dedicated to the new carrier letter requirements to ensure the timely and complete entry of all FEP fraud and abuse cases.”*

#### **Recommendation 15**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the FEPDO’s SIU has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29.

#### **Association Response:**

*The Association states, “BCBSA respectfully disagrees with this recommendation that BCBSA and . . . the Plan is not in compliance with the OPM Carrier Letters. BCBSA reviewed and revised its processes as well as its Fraud Waste and Abuse (FWA) Program Standards Manual in order to ensure compliance with CL 2011-13 and CL 2014[-]29.”*

*The Association also states, “Based on the authoritative guidance given to BCBS Plan SIUs, the FEPDO SIU calculated the timeliness measure from the date of FIMS entry (as evidence of an affirmative action being taken) and counted the*

*number of working days, excluding federal holidays, to the OPM OIG notification date. The FEPDO SIU agrees that 3 cases out of the 26 cases sampled (with FEP exposure), or 11.54%, were untimely reported to OPM, ranging from 54 to 194 working days after entry into FIMS. The untimely reporting is a result of preemptive entry of a potential complaint or investigation into FIMS, in which the FEP SIU Consultant works with the Plan SIU Investigator to gather the necessary information and then determine need for affirmative action . . . As such, these 3 cases did not meet the criteria for notification to OPM OIG under CL 2014-29. FEPDO SIU continues to disagree that sample 16 ( [REDACTED] ) was reported untimely as it was entered into FIMS on 11/25/2015 and a case notification was subsequently sent to OPM on 12/27/2015 which is within the 30 working day time requirement for reporting these cases to OPM. The 6 cases cited as not reported to OPM did not meet the reporting requirements set forth in CL 2014-29 as there were no affirmative steps taken to investigate and/or no reportable fraud, waste and/or abuse.”*

*In addition, the Association states, “The FEPDO SIU is committed to prevent, detect, investigate and report Federal Employees Health Benefits (FEHB) related Fraud, Waste and Abuse in compliance with the communication and reporting requirements contained in Carrier Letter 2014-29. The FIMS system is currently being replaced with a system that has more robust reporting capabilities. The FEPDO SIU will continue to review the procedures and guidance in place to address the controls to mitigate the risk of untimely reporting. Essential areas will include the work flow process (case intake to reporting to OPM OIG) and capture of key dates, to facilitate and monitor reporting requirements.”*

**OIG Comment:**

We continue to recommend that the contracting officer direct the Association to provide evidence or supporting documentation ensuring that the FEPDO’s SIU has implemented the necessary procedural change(s) to ensure that all fraud and abuse cases are timely submitted to the OIG. Our analysis of Anthem’s fraud and abuse cases demonstrates that the FEPDO’s SIU continues to report cases late to the OIG.

We also disagree with the Association’s assertion that the timeliness measure should begin from the date of FIMS entry. Just because a BCBS plan’s SIU enters a case into FIMS does not mean that this is the actual date when the plan took an affirmative step to investigate the complaint. Nevertheless, we do believe that a further understanding of what constitutes an affirmative step needs to be commonly understood by all parties involved, since going forward this will be the timeliness measure for reporting cases to

the OIG. For the six cases that were not reported to the OIG, the Association did not provide adequate documentation as to why these cases were entered into FIMS but not reported to the OIG. According to the Association's response, once a case is entered into FIMS an affirmative step has been made. Therefore, based on the Association's assertion, these cases should have been reported to the OIG.

# IV. SCHEDULE A – QUESTIONED CHARGES

ANTHEM INC. MASON, OHIO												
QUESTIONED CHARGES												
	A. Miscellaneous Health Benefit Payments and Credits						B. Administrative Expenses			C. Cash Management	D. Fraud and Abuse Program	
	AF 1	AF 2	AF 3	AF 4	AF 5		AF 1	AF 2		AF 1		
Anthem BCBS Plans	Provider Audit/Auto Recoupment Write-Offs	Subrogation Recoveries	Fraud Recoveries	Hospital Settlements	Special Plan Invoices/Provider Audit Vendor Fees	Total Miscellaneous Health Benefit Payments and Credits	Unallowable and/or Unallocable Cost Centers	Pension Costs	Total Administrative Expenses	Cash Management (No Findings)	Special Investigations Unit (Procedural)	Total Questioned Charges
California	\$0	\$0	\$0	\$0	\$0	\$0	\$115,705	\$44,954	\$160,659	\$0	\$0	\$160,659
Colorado	0	0	3,787	0	0	3,787	63,819	46,856	110,675	0	0	114,462
Connecticut	0	0		0	0	0	16,257	23,619	39,876	0	0	39,876
Georgia	821,594	0	29,815	0	0	851,409	483,646	91,208	574,854	0	0	1,426,263
Indiana	0	0	0	0	0	0	54,962	46,472	101,434	0	0	101,434
Kentucky	0	0	0	0	0	0	58,794	39,660	98,454	0	0	98,454
Maine	0	0	0	0	0	0	14,049	20,786	34,835	0	0	34,835
Missouri	0	52,832	0	0	0	52,832	23,696	28,830	52,526	0	0	105,358
Nevada	0	0	0	0	0	0	22,499	16,497	38,996	0	0	38,996
New Hampshire	0	0	0	0	0	0	13,169	19,149	32,318	0	0	32,318
New York	0	0	18,485	0	0	18,485	66,027	52,797	118,824	0	0	137,309
Ohio	0	0	30,307	0	0	30,307	61,251	77,124	138,375	0	0	168,682
Virginia	0	121,231	8,635	66,665	886	197,417	178,853	137,030	315,883	0	0	513,300
Wisconsin	0	0	0	0	0	0	23,219	29,356	52,575	0	0	52,575
<b>TOTALS</b>	\$821,594	\$174,063	\$91,028	\$66,665	\$886	\$1,154,236	\$1,195,946	\$674,338	\$1,870,284	\$0	\$0	\$3,024,520

AF = Audit Finding

## APPENDIX



February 13, 2017

[REDACTED], Group Chief  
Experience-Rated Audits Group  
Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, Room 6400  
Washington, DC 20415-11000

**Reference: OPM DRAFT AUDIT REPORT  
Anthem Blue Cross Blue Shield Plans (Anthem)  
Audit Report Number: 1A-10-18-16-009**

Dear [REDACTED]:

This is our response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) concerning the Anthem, Inc. Blue Cross Blue Shield Plans (14 Plans in total). Our comments concerning the findings in the report are as follows:

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

**1. Provider Audit/Auto Recoupments Write-Offs \$1,341,609**

#### **Recommendation 1**

We recommend that the contracting officer require Anthem to recover and return \$1,341,609 to the FEHBP for the claim overpayments that were written off by Anthem.

#### **Plan Response**

The Plan disagrees with this recommendation, as the Plan contends that these accounts were uncollectible when they were written off.

In support of its position and the concurrence of the OIG the Plan conducted a sample of the accounts written off to determine if the Plan performed adequate due diligence prior to writing the claims off.

The questioned amount is summarized into two categories as follows:

**Category 1: \$151,995.37.** This category represents Georgia refunds that were returned to the Program but did not have a claim to be adjusted. The Plan sampled the top 50 refunds and determined that the Plan fully recovered and returned the refund amount to the Program. Please see the support titled “**Exhibit A – Refunds Returned to the Program.**”

**Category 2: \$1,189,613.33.** This category represents overpayments that the Plan set up for collection thru offsets against future claim payments to the affected providers during the period 2004-2014. The Plan’s position is that the setup of the Provider’s for overpayment recovery thru future claims offset supports the Plan’s due diligence efforts to recover the overpayments ranging in age between 130 days up to 3,827 days. The Plan determined prior to the write off (as indicated in CS 1039, Section 2.3(g)(5)) that it was no longer cost effective to pursue further collection efforts or that it would be against equity and good conscience to continue collection efforts.

In addition, \$282,192.34 of the \$1,189,613.33, in claim overpayments in this category, were less than \$100 and according to the FEP ADMINISTRATIVE PROCEDURES MANUAL Chapter 14.3, “In general, diligent efforts should be made to recover overpayments until the debt is paid in full; until it is no longer cost-effective to pursue the debt; or until it would be against equity and good conscience to continue collection efforts.” The Plan determined prior to the write off, as required in Section 2.3(g)(5) of CS 1039 that it was no longer cost effective to pursue further collection efforts or that it would have been against equity and good conscience to continue collection efforts.

### **Additional Sampling**

The Plan sampled the top 50 line items by dollar amount (\$165,911.22), and found that adequate due diligence was performed on 39 of the 50 items sampled (\$126,168.22).

The Plan has documentation that supports due diligence for 39 of the 50 overpayments sampled totaling \$126,168.22. See “**Exhibit B1 – Due Diligence Support.**”

Of the 39 overpayments where the Plan performed due diligence, the Plan recovered 25 of these overpayments totaling \$83,592.13. See “**Exhibit B2 – LOCA Returns.**”

There were 3 miscellaneous overpayments in the sample that were erroneously set up for offset in the amount of \$5,260.73 and the funds are not due back to OPM. See “**Exhibit B3 – Miscellaneous Overpayments.**”

For the remaining 8 overpayments (\$34,482.27) sampled, the Plan set up the Providers for offset during the years 2011-2014 in an effort to recover the overpayment against future claim payments to the Providers. The Plan's position is that the setup of the Provider offsets supports the Plan's due diligence in the Plan's effort to recover the overpayments aging between 193 days up to 1,298 days. Lastly, The Plan determined prior to the write off, as required in Section 2.3(g)(5) of CS 1039 that it was no longer cost effective to pursue further collection efforts or that it would have been against equity and good conscience to continue collection efforts.

**2. Subrogation Recoveries** **\$174,063**

**Recommendation 2**

We recommend that the contracting officer require Anthem to return \$172,896 to the FEHBP for the questioned subrogation recoveries. However, since we verified that Anthem returned \$172,896 to the FEHBP for these questioned recoveries, no further action is required for this amount.

**Plan Response**

The Plan agrees with this recommendation.

**Recommendation 3**

We recommend that the contracting officer require Anthem to return \$1,167 to the FEHBP for LII on the questioned subrogation recoveries. However, since we verified that Anthem returned the questioned LII to the FEHBP, no further action is required for this LII amount.

**Plan Response**

The Plan agrees with this recommendation.

**3. Fraud Recoveries** **\$91,028**

**Recommendation 4**

We recommend that the contracting officer require Anthem to return \$86,790 to the FEHBP for the questioned fraud recoveries. However, since we verified that Anthem returned \$83,192 to the FEHBP for these questioned recoveries, the contracting officer should ensure that Anthem recover and return \$3,598 to the FEHBP for the overpayment that has been outstanding for more than two years.

## **Plan Response**

The Plan disagrees with this recommendation that the Plan should return \$3,598 in overpayments to the FEHBP. The Plan notes that in February, March, and May of 2014 the Plan's recovery area set up auto recoupments to recover the questioned funds from future remittances. The Plan successfully recouped \$11,060.61, the detail of which was provided with Information Request 18. The Provider has not submitted claims since July 2014; however, the Plan continues to maintain the auto recoup feature for the Provider, which will flag any future claims payments due to the Provider for offset. Please see the support titled "**Exhibit C1** - GA Outstanding Auto Recoups," which shows that the auto recoups totaling \$3,598.11 were still outstanding as of January 3, 2017. The Plan's position is that the setup of the offsets supports their diligent efforts to recover the overpayments that ranged in age between 982 days and 1,036 days, as of January 27, 2017.

## **Recommendation 5**

We recommend that the contracting officer require Anthem to return \$4,238 to the FEHBP for LII on the questioned fraud recoveries. However, since we verified that Anthem returned \$3,845 in questioned LII to the FEHBP, the contracting officer should ensure that Anthem returns the remaining amount of \$393 to the FEHBP.

## **Plan Response**

The Plan agrees with this recommendation and returned the questioned LII Amount of \$393 to the Program thru the LOCA draw on October 18, 2016. See **Exhibit C2** for the SPI documentation and **Exhibit C3** for the LOCA return.

## **4. Hospital Settlements \$66,665**

### **Recommendation 6**

We recommend that the contracting officer require Anthem to return \$66,147 to the FEHBP for the questioned hospital settlement recoveries. However, since we verified that Anthem returned \$66,147 to the FEHBP for these recoveries, no further action is required for this amount.

## **Plan Response**

The Plan agrees with this recommendation.



**Recommendation 7**

We recommend that the contracting officer require Anthem to return \$518 to the FEHBP for LII on the questioned hospital settlement recoveries. However, since we verified that Anthem returned \$518 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agrees with this recommendation.

**5. Special Plan Invoices/Providers Audit Vendor Fee \$886**

**Recommendation 8**

We recommend that the contracting officer disallow \$830 for the provider audit vendor fee not chargeable to the FEHBP. However, since we verified that Anthem returned \$830 to the FEHBP for the questioned provider audit vendor fee, no further action is required for this amount.

**Plan Response**

The Plan agrees with this recommendation.

**Recommendation 9**

We recommend that the contracting officer require Anthem to return \$56 to the FEHBP for LII on the questioned provider audit vendor fee. However, since we verified that Anthem returned \$56 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Plan Response**

The Plan agrees with this recommendation.

**B. ADMINISTRATIVE EXPENSES**

**1. Unallowable and/or Unallocable Cost Center \$1,195,946**

**Recommendation 10**

We recommend that the contracting officer disallow \$1,147,874 for the questioned unallowable and/or unallocable cost center expenses charged to the FEHBP from 2010 through 2015. However, since we verified that Anthem returned \$1,143,282 to the FEHBP for the 2011 through 2015 questioned cost

center expenses, the contracting officer should ensure that Anthem returns the remaining 2010 amount of \$4,592, if determined appropriate

### **Plan Response**

The Plan agrees with \$1,143,282 of the recommendation related to the questioned unallowable/unallocable cost center findings for the periods 2011-2015 and disagrees with \$4,592 in questioned costs related to the 2010 contract year. The Plan disagrees with the questioned amount of \$4,592 related to 2010 contract year as the Plan's position is that the 2010 questioned costs are considered beyond the scope of the audit based on Section 4.4 (c) of Contract CS 1039. This section states "... a claim seeking, as a matter of right, the payment of money, in a sum certain pursuant to 48 CFR section 52.233-1, shall not be made more than five years following the last day prescribed by the contract for filing the calendar year Annual Accounting Statement for the year with respect to which the claim arises. A claim includes, in the case of the carrier, a charge against the contract." **See Exhibit D** for the PPA detail for funds returned to the Program.

### **Recommendation 11**

We recommend that the contracting officer require Anthem to return \$48,072 to the FEHBP for LII on the questioned unallowable and/or unallocable cost center expenses plus the applicable 2010 LII. However, since we verified that Anthem returned \$101 in LII to the FEHBP, the contracting officer should ensure that Anthem returns the remaining questioned LII of \$47,971 to the FEHBP plus the applicable 2010 LII, if determined appropriate.

### **Plan Response**

The Plan agrees with \$48,072 for lost investment income for the contract years 2011-2015 and disagrees that the Program is due lost investment income for the 2010 contract year as this contract year is out of scope per CS 1039 as discussed in Recommendation 10 above. The Plan has returned \$48,072 to the Program for Contract years 2011-2015 per schedule below.

## **2. Pension Cost \$674,338**

### **Recommendation 12**

We recommend that the contracting officer disallow \$632,790 (net) for pension costs that were overcharged to the FEHBP in 2012 and 2013. However since we verified that Anthem returned \$632,790 to the FEHBP for the questioned pension costs, no further action is required for this amount.

## **Plan Response**

The Plan agrees with this recommendation.

## **Recommendation 13**

We recommend that the contracting officer require Anthem to return \$41,548 to the FEHBP for LII on the questioned pension costs. However since we verified that Anthem returned \$41,548 in questioned LII to the FEHBP, no further action is required for this LII amount.

## **Plan Response**

The Plan agrees with this recommendation.

## **C. CASH MANAGEMENT**

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

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

### **2. Special Investigations Unit**

### **Procedural**

## **Recommendation 14**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that Anthem has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse). We also recommend that the contracting officer instruct the Association to provide Anthem with more oversight to ensure the timely and complete entry of all FEP fraud and abuse cases into FIMS, and concurrently, timely and complete communication of those cases to the OIG.

## **Plan Response**

The Plan SIU has updated their antifraud plan to ensure the communication and reporting requirements meet the requirements contained in the OPM Carrier Letter. The Association has implemented a new system, [REDACTED], [REDACTED], January 9, 2017. The [REDACTED] is dedicated to the new carrier letter requirements to ensure the timely and complete entry of all FEP fraud and abuse cases.

## **Recommendation 15**

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the FEPDO's SIU has implemented the necessary procedural changes to meet the communication and reporting requirements of fraud and abuse cases that are contained in CL 2014-29 (Federal Employees Health Benefits Fraud, Waste, and Abuse).

## **BCBSA Response**

BCBSA respectfully disagrees with this recommendation that BCBSA and that the Plan is not in compliance with the OPM Carrier Letters. BCBSA reviewed and revised its processes as well as its Fraud Waste and Abuse (FWA) Program Standards Manual in order to ensure compliance with CL 2011-13 and CL 201429. BCBSA's disagreement relates to the methodology used to determine timely notification to OPM. As a rationale for the finding that gave rise to this recommendation, the OIG stated on page 26 of the Anthem Draft Report that the "FEPDO requires the local BCBS plans to enter fraud and abuse cases into the Fraud Information Management System (FIMS) within 20 days of identifying FEP Exposure." The FEPDO Special Investigations Unit (FEPDO SIU) respectfully disagrees. The 2015 FEP FWA Program Standards Manual instructs BCBS Plans to enter cases into FIMS within 20 working days of the Plan SIU *taking an affirmative step to pursue* a provider or member for potential fraud waste or abuse and involving FEP claims. Please reference pages 21-22 of the 2015 FEP FWA Manual. **Exhibit E.1.**

The determination of FEP paid claims and/or exposure is a routine part of the preliminary review stage, or triage. Carrier Letter 2014-29 **does not** make reference to a time limit for the preliminary review stage of a complaint. **See Exhibit E.2.** A vast majority of investigations or inquiries are initiated by the Plan SIU concerning an allegation or complaint involving the Plan's private or commercial lines of business. Generally, Plan SIUs approach their investigations or inquiries as a combined effort to address all lines of business, including FEP. Determination of FEP paid claims and/or exposure is routine and part of the preliminary review stage or triage. Please reference the slide decks from the OIG Task Force Meeting on January 28, 2016 (Exhibit E.3) which supports the position of the FEPDO SIU. After preliminary review or triage is complete, **and** an affirmative step is taken to further review the complaint or allegation for potential FWA against FEP, the case becomes reportable to OPM OIG.

The draft report further states that for the scope of January 1, 2015 to September 30, 2015 there were 4 cases out of a judgmental sample of 26 cases (with FEP exposure), or 15.38%, that were untimely reported to OPM, ranging from 75 to 278 days after FEP exposure was identified, and 6 cases not reported to the OIG. Please note that the range stated in the draft report is based on calculating the number of calendar days between the actual OPM OIG notification date and the date FEP exposure was identified.

Based on the authoritative guidance given to BCBS Plan SIUs, the FEPDO SIU calculated the timeliness measure from the date of FIMS entry (as evidence of an affirmative action being taken) and counted the number of working days, excluding federal holidays, to the OPM OIG notification date. The FEPDO SIU agrees that 3 cases out of the 26 cases sampled (with FEP exposure), or 11.54%, were untimely reported to OPM, ranging from 54 to 194 working days after entry into FIMS. The untimely reporting is a result of preemptive entry of a potential complaint or investigation into FIMS, in which the FEP SIU Consultant works with the Plan SIU Investigator to gather the necessary information and then determine need for affirmative action. Please reference the BCBSA response to Audit Inquiry #3 where BCBSA stated that following cases (██████████, ██████████ & ██████████) were considered to be in a state of preliminary review at the time of initial entry into FIMS. As such, these 3 cases did not meet the criteria for notification to OPM OIG under CL 2014-29. FEPDO SIU continues to disagree that sample 16 (██████████) was reported untimely as it was entered into FIMS on 11/25/2015 and a case notification was subsequently sent to OPM on 12/27/2015 which is within the 30 working day time requirement for reporting these cases to OPM. The 6 cases cited as not reported to OPM did not meet the reporting requirements set forth in CL 2014-29 as there were no affirmative steps taken to investigate and/or no reportable fraud, waste and/or abuse.

The FEPDO SIU also notes that page 27 of the draft report, states that “Timely case notifications allow the OIG to investigate whether other FEHBP Carriers are exposed to the identified fraudulent activity.” Case notifications report only the **allegation** of potential FWA to OPM OIG, i.e., “a written summary of the evidence the Carrier has reviewed which caused the Carrier to suspect that FWA has occurred” (Carrier Letter 2014-29 Attachment 2), once an affirmative step is taken to investigate the complaint. Applicable Federal Laws through legal action determines what constitutes actual fraudulent activity. Therefore, the FEPDO SIU strongly suggests the addition of the word “potential” before ‘fraudulent activity’, for the purpose of clarity and accuracy.

The FEPDO SIU is committed to prevent, detect, investigate and report Federal Employees Health Benefits (FEHB) related Fraud, Waste and Abuse in compliance with the communication and reporting requirements contained in Carrier Letter 2014-29. The FIMS system is currently being replaced with a system that has more robust reporting capabilities. The FEPDO SIU will continue to review the procedures and guidance in place to address the controls to mitigate the risk of untimely reporting. Essential areas will include the work flow process (case intake to reporting to OPM OIG) and capture of key dates, to facilitate and monitor reporting requirements.

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

Sincerely,

[REDACTED]

[REDACTED]

Managing Director, FEP Program Assurance

Attachments

CC [REDACTED], Anthem  
[REDACTED], FEPDO



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

Fraud, waste, and mismanagement in Government concerns everyone: Office of the Inspector General staff, agency employees, and the general public. We actively solicit allegations of any inefficient and wasteful practices, fraud, and mismanagement related to OPM programs and operations. You can report allegations to us in several ways:

**By Internet:** <http://www.opm.gov/our-inspector-general/hotline-to-report-fraud-waste-or-abuse>

**By Phone:** Toll Free Number: (877) 499-7295  
Washington Metro Area: (202) 606-2423

**By Mail:** Office of the Inspector General  
U.S. Office of Personnel Management  
1900 E Street, NW  
Room 6400  
Washington, DC 20415-1100