



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

Final Audit Report

**Audit of BlueCross BlueShield of North Carolina
Durham, North Carolina**

Report Number 1A-10-33-18-001

August 28, 2018

EXECUTIVE SUMMARY

Audit of BlueCross BlueShield of North Carolina

Report No. 1A-10-33-18-001

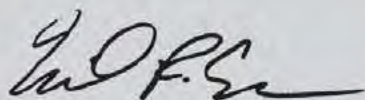
August 28, 2018

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueCross BlueShield of North Carolina (Plan) is complying with the provisions of the Federal Employees Health Benefits Act and regulations that are included, by reference, in the Federal Employees Health Benefits Program (FEHBP) contract. The objectives of our audit were to determine if the Plan charged costs to the FEHBP and provided services to FEHBP members in accordance with the terms of the contract.

What did we audit?

Our audit covered miscellaneous health benefit payments and credits from 2012 through March 31, 2017, as well as administrative expenses and statutory reserve payments from 2012 through 2016, as reported in the Annual Accounting Statements. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2012 through March 31, 2017, and the Plan's Fraud and Abuse Program from 2016 through March 31, 2017.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$4,231,513 in health benefit charges, administrative expenses, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with \$4,134,031 and disagreed with \$97,482 of these questioned amounts. As part of our review, we verified that the Plan returned \$4,134,031 of the questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned \$113,137 where the Plan had not recovered and/or returned funds to the FEHBP for claim overpayments. We verified that the Plan has recovered and returned \$15,655 of these claim overpayments to the FEHBP.
- Administrative Expenses – We questioned \$2,524,636 in administrative expenses and applicable LII, consisting of \$2,131,780 for overcharges due to unprocessed cost settlement adjustments, \$204,229 for non-chargeable administrative expenses, \$2,650 for unallowable and/or unallocable natural account expenses, and \$185,977 for applicable LII. We verified that the Plan has returned these questioned amounts to the FEHBP.
- Statutory Reserve Payments – The Plan calculated and charged statutory reserve payments to the FEHBP in accordance with Contract CS 1039 and applicable laws and regulations.
- Cash Management – We determined that the Plan held excess FEHBP funds of \$1,593,740 in the dedicated Federal Employee Program investment account. We verified that the Plan has returned these questioned excess funds to the FEHBP.
- Fraud and Abuse Program – The Plan is in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2014-29.

ABBREVIATIONS

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

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I. BACKGROUND

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

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

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

The BlueCross BlueShield Association (Association), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (Contract CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BCBS plans throughout the United States to process the health benefit claims of its federal subscribers. The Plan is one of 36 BCBS companies participating in the FEHBP. These 36 companies include 64 local BCBS plans.

The Association has established a Federal Employee Program (FEP¹) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by CareFirst BCBS, located in Owings Mills, Maryland and Washington, D.C. These activities include acting as intermediary for claims processing between the Association and local BCBS plans, processing and maintaining subscriber eligibility, adjudicating member claims on behalf of BCBS plans, approving or disapproving the

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

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 Plan management. In addition, working in partnership with the Association, management of the Plan is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of the Plan (Report No. 1A-10-33-12-020, dated December 27, 2012), covering 2006 through August 2011, have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan and/or Association officials throughout the audit and at an exit conference on February 14, 2018; and were presented in detail in a draft report, dated March 16, 2018. The Association's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

OBJECTIVES

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

Miscellaneous Health Benefit Payments and Credits

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

Administrative Expenses

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

Statutory Reserve Payments

- To determine whether the Plan charged statutory reserve payments to the FEHBP in accordance with the contract and applicable laws and regulations.

Cash Management

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

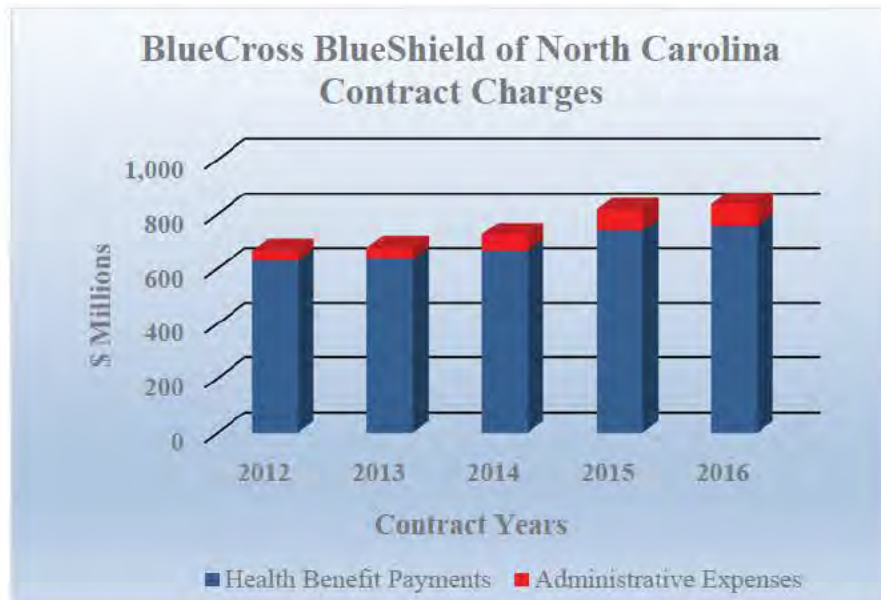
Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 1039 and 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 310 and 810 for contract years 2012 through 2016. During this period, the Plan paid approximately \$3.4 billion in FEHBP health benefit payments and charged the FEHBP \$290 million in administrative expenses (see chart below). The Plan also paid approximately \$19 million in statutory reserve payments during this period.



Specifically, we reviewed miscellaneous health benefit payments and credits (such as cash and auto recoupment refunds, fraud recoveries, and special plan invoices) and the Plan's cash management activities and practices from 2012 through March 31, 2017, as well as administrative expense charges and statutory reserve payments from 2012 through 2016. We also reviewed the Plan's Fraud and Abuse Program activities and practices from 2016 through March 31, 2017.

In planning and conducting our audit, we obtained an understanding of the Plan's internal control structure to help determine the nature, timing, and extent of our auditing procedures. This was determined to be the most effective approach to select areas of audit. For those areas selected,

we primarily relied on substantive tests of transactions and not tests of controls. Based on our testing, we did not identify any significant matters involving the Plan'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 the Plan's system of internal controls taken as a whole.

We also conducted tests to determine whether the Plan had complied with the contract, the applicable procurement regulations (i.e., Federal Acquisition Regulations (FAR) and Federal Employees Health Benefits Acquisition Regulations (FEHBAR), as appropriate), and the laws and regulations governing the FEHBP. The results of our tests indicate that, with respect to the items tested, the Plan did not comply with all provisions of the contract and federal procurement regulations. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this audit report. With respect to the items not tested, nothing came to our attention that caused us to believe that the Plan had not complied, in all material respects, with those provisions.

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

The audit was performed at the Plan's office in Durham, North Carolina on various dates from October 17, 2017, through December 15, 2017. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. through February 14, 2018. Throughout the audit process, the Plan did a good job providing complete and timely responses to our numerous requests for supporting documentation. We greatly appreciated the Plan's cooperation and responsiveness during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

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

We interviewed Plan personnel and reviewed the Plan's policies, procedures, and accounting records during our audit of miscellaneous health benefit payments and credits. For the period 2012 through March 31, 2017, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 100 FEP health benefit refund cash receipts, totaling \$14,480,977 (from a universe of 96,361 FEP refund cash receipt amounts, totaling \$75,514,827, for the audit scope). Our high dollar sample included the 100 highest refund cash receipt amounts from the audit scope.
- A high dollar sample of 30 FEP health benefit refunds returned via auto recoupments, totaling \$7,735,989 (from a universe of 62,937 FEP refunds returned via auto recoupments, totaling \$51,114,116, for the audit scope). Our high dollar sample included the 30 highest auto recoupment amounts from the audit scope.

Other Health Benefit Payments, Credits, and Recoveries

- A high dollar sample of 10 FEP fraud recoveries, totaling \$388,191 (from a universe of 185 FEP fraud recoveries, totaling \$912,503, for the audit scope). For this sample, we selected the 10 highest dollar fraud recoveries from the audit scope.
- A high dollar sample of 25 special plan invoices, totaling \$2,712,408 in net FEP payments (from a universe of 576 special plan invoices, totaling \$6,060,366 in net FEP payments, for the audit scope). We judgmentally selected these special plan invoices based on our nomenclature review of high dollar invoice amounts. Special plan invoices are used by the Plan to process items such as miscellaneous health benefit payment and credit transactions that do not include primary claim payments or checks.
- A high dollar sample of 28 FEP claims from the Plan's retroactive enrollment reports, totaling \$454,674 in potential overpayments (from a universe of 4,713 FEP claims, totaling \$1,433,812 in potential overpayments, for the period January 2017 through March 2017). The Plan's retroactive enrollment reports identify paid claims that are potentially affected by enrollment changes (e.g., claims paid before the member's eligibility status is updated in the FEP Express Enrollment System). These reports are generated by the FEP Operations Center and provided to the BCBS plans on a daily basis. For this sample of potential overpayments, we judgmentally selected high dollar claims with paid amounts of \$7,000 or more to determine if the Plan properly identified claims requiring retroactive adjustments, timely initiated recoveries from the providers, and/or timely returned the recovered amounts to the FEHBP.

We reviewed these samples to determine if health benefit refunds and recoveries were timely returned to the FEHBP and if miscellaneous payments were properly charged to the FEHBP. The results of these samples were not projected to the universe of miscellaneous health benefit payments and credits, since we did not use statistical sampling.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2012 through 2016. Specifically, we reviewed administrative expenses relating to cost centers; natural accounts; pensions; post-retirement; employee health benefits; out-of-system adjustments; prior period adjustments; executive compensation limits; Association dues; gains and losses; non-recurring projects; and Patient Protection and Affordable Care Act fees.² We also reviewed statutory reserve payments charged to the FEHBP for contract years 2012 through 2016. We used the FEHBP contract, the FAR, the FEHBAR, and/or the Affordable Care Act (Public Law 111-148) to determine the allowability, allocability, and reasonableness of charges.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 1039 and applicable laws and regulations. Specifically, we reviewed the letter of credit account drawdowns, working capital calculations, adjustments and/or balances, and interest income transactions from 2012 through March 31, 2017, as well as the Plan's dedicated FEP investment account balance as of March 31, 2017.

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

² In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEP. The Plan allocated administrative expenses of \$195,539,900 to the FEHBP from 285 cost centers that contained 243 natural accounts. From this universe, we selected a judgmental sample of 72 cost centers to review, which totaled \$152,057,013 in expenses allocated to the FEHBP. We also selected a judgmental sample of 57 natural accounts to review, which totaled \$175,198,206 in expenses allocated to the FEHBP through the cost centers. Because of the way we select and review each of these samples, there is a duplication of some of the administrative expenses tested. We selected these cost centers and natural accounts based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. We reviewed the expenses from these cost centers and natural accounts for allowability, allocability, and reasonableness. The results of these samples were not projected to the universe of administrative expenses, since we did not use statistical sampling.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Fraud Recoveries

\$97,482

Our audit determined that the Plan was not diligent in its efforts to recover and return \$97,482 to the FEHBP for a fraud case involving FEP claim overpayments. As a result, these FEP claim overpayments have been outstanding for more than five years and are potentially at risk of being uncollectible. According to contract CS 1039, the Plan must make a prompt and diligent effort to recover erroneous benefit payments until the debt is paid in full. Therefore, the Plan should immediately recover and return \$97,482 to the FEHBP for this fraud case involving FEP claim overpayments.

Contract CS 1039, Part III, Section 3.2 (b)(1) states, “The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable.” Part II, Section 2.3(g) states, “If the Carrier or OPM determines that a Member’s claim has been paid in error for any reason . . . the Carrier shall make a prompt and diligent effort to recover the erroneous payment”

Contract CS 1039, Part II, Section 2.3(g) also states that a prompt and diligent effort to recover erroneous payments means that upon discovering that an erroneous payment exists, the Carrier shall:

- (1) Send a written notice of erroneous payment to the member or provider.
- (2) Send follow-up notices to the provider at 30, 60 and 90-day intervals, if the debt remains unpaid and undisputed.
- (3) The Carrier may offset future benefits payable to a provider on behalf of the member to satisfy a debt due under the FEHBP if the debt remains unpaid and undisputed for 120 days after the first notice.
- (4) After applying the first three steps, refer cases when cost effective to do so to a collection attorney or a collection agency if the debt is not recovered.

Carrier Letter 2014-29 (OPM Federal Employees Health Benefits Fraud, Waste and Abuse) states: “In cases where OPM-OIG has requested a referral from the Carrier and/or has advised the Carrier that OPM-OIG has an open investigation, the Carrier may not enter into a Settlement Agreement for the recovery of FEHBP funds without communicating with and obtaining authorization from OPM-OIG.”

For 2012 through March 31, 2017, there were 185 FEP fraud recoveries, totaling \$912,503. From this universe, we selected and reviewed a judgmental sample of 10 fraud recoveries, totaling \$388,191, for the purpose of determining if the Plan timely returned these recoveries to the FEHBP. Our sample included the 10 highest fraud recoveries from the audit scope.

The Plan did not make a diligent effort to recover \$97,482 in FEP claim overpayments.

Based on our review, we determined that the Plan was not diligent in its efforts to recover \$97,482 for a fraud case involving FEP claim overpayments made to a provider. For all lines of business, including FEP, this fraud case totaled [REDACTED] in claim overpayments. The Plan initially mailed the provider two overpayment recovery letters on July 10, 2012, and September 25, 2012, and then set up this provider for auto recoupment on October 2, 2012. In August 2013, the provider changed its status with the Plan to non-participating. [REDACTED]

It is our position that the Plan failed to communicate with the OPM-OIG, as required by Carrier Letter 2014-29, the initial settlement proposal made by the provider for the recovery of FEHBP funds. In addition, our understanding is that, after the provider's change in participation status, the Plan did not follow-up with the provider to determine if these funds were uncollectable. At that point, the Plan should have reevaluated the cost effectiveness of pursuing legal action and/or referred the case to a collection agency (based on the FEHBP contract), as well as continued to communicate with the OIG regarding resolution options. As stated above, the Plan must make a prompt and diligent effort to recover erroneous benefit payments until the debt is paid in full. Therefore, the Plan should immediately recover and return \$97,482 to the FEHBP for this fraud case involving FEP claim overpayments.

Association Response:

The Association disagrees with this finding. The Association states, "the Plan contends that this account is uncollectible and still remains on the Plan's voucher deduct system. The Plan's position is that by issuing overpayment recovery letters to

the provider and placing the provider on a voucher deduct recovery thru future claims offset supports the Plan's due diligence efforts to recover the overpayments. The Plan determined prior to the voucher deduct (as indicated in CS 1039, Section 2.3(g) (5)) that it was no longer cost effective to pursue further collection efforts. In addition, the FEP Administrative Policy Manual (APM) Chapter 14.3 states, '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.'

However, the Plan did place the provider on voucher deduct. . . . The Plan would like to point out that the initial settlement proposed by the Provider was less than 3% of the total amount due. To accept a settlement of this immaterial amount was not acceptable and would have set an irreversible precedence."

OIG Comment:

After reviewing the Association's response to the draft report, we have not changed our position. We continue to maintain that the Plan failed to communicate with the OIG, as required by Carrier Letter 2014-29, the initial settlement proposal made by the provider for the recovery of FEHBP funds. In addition, after the provider's change in participation status, the Plan did not follow-up with the provider to determine if these funds were actually uncollectable. At that point, the Plan should have reevaluated the cost effectiveness of pursuing legal action and/or referred the case to a collection agency (based on the FEHBP contract) as well as continued communicating with the OIG regarding resolution options. According to correspondence provided by the Plan, the Plan did not prepare a cost effectiveness analysis until the week of February 19, 2018, which was after the date we notified the Plan of this audit finding.

Recommendation 1

We recommend that the contracting officer require the Plan to return \$97,482 to the FEHBP for the claim overpayments that have been outstanding for more than five years (even if not recovered from the provider, as a diligent effort to recover was not made).

2. Retroactive Enrollment Reports \$15,655

Our review of the Plan's retroactive enrollment reports, covering the period January 2017 through March 2017, determined that the Plan had not initiated recoveries and/or returned funds related to three FEP claim payment errors, resulting in overcharges of \$15,655 to

the FEHBP. As a result of this finding, the Plan recovered and returned \$15,655 to the FEHBP for these claim overpayments.

As previously cited from Contract CS 1039, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable. In addition, the Carrier is required to make a prompt and diligent effort to recover erroneous payments. Contract CS 1039, Part I, Section 1.9 (f)(3) states, "Recovery of Erroneous Payments - the average number of working days it takes for the Carrier to begin collection action against an FEHB provider or member following identification of an erroneous payment, including overpayments. REQUIRED STANDARD: The Carrier takes an average of no more than 30 working days from the date it identifies an FEHB erroneous payment to the date it begins the collection action."

The retroactive enrollment report identifies paid claims that are potentially affected by enrollment changes (e.g., claims paid before a member's eligibility status is updated in the FEP Direct Enrollment System). These potential overpayments require the Plan to determine if a refund should be initiated from the provider. The report is generated by the FEP Operations Center and is distributed to the Plan on a daily basis.

For the period January 2017 through March 2017, there were 4,713 FEP claims, totaling \$1,433,812 in potential overpayments, on the Plan's retroactive enrollment reports. From this universe, we selected and reviewed a judgmental sample of 28 high dollar FEP claims, totaling \$454,674 in potential overpayments, for the purpose of determining if the Plan initiated and/or completed the recovery process for potential FEP claim overpayments. Our high dollar sample included claim payments of \$7,000 or more.

The Plan had not initiated recoveries of \$15,655 for three claim payment errors.

Based on our review, we determined that the Plan had not initiated recoveries for three claim payment errors, totaling \$15,655 in overcharges to the FEHBP. These claim overpayments were due to changes in the members' other party liability status where FEP was not primary. In addition, these claims were paid before the members' eligibility status changes were updated in the FEP Direct Enrollment System. When the Plan became aware of these claim overpayments, the Plan should have made a prompt and diligent effort to recover these overpayments to ensure the timely return of \$15,655 to the FEHBP. Because of this finding, the Plan recovered the funds related to these claim overpayments and returned \$15,655 to the FEHBP on various dates in March 2018 through May 2018.

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan recovered these claim overpayments and returned \$15,655 to the FEHBP on various dates in March 2018 through May 2018.

Recommendation 2

We recommend that the contracting officer require the Plan to return \$15,655 to the FEHBP for the questioned claim overpayments. However, since we verified that the Plan returned \$15,655 to the FEHBP for these overpayments, no further action is required.

B. ADMINISTRATIVE EXPENSES

1. Cost Settlement Adjustments

\$2,272,546

Our audit determined that the Plan had not completed the cost settlement adjustments to credit the FEHBP for 2014 and 2015 administrative expense and quality improvement cost overcharges. Because of this finding, the Plan returned \$2,272,546 to the FEHBP on various dates in December 2017 through March 2018, consisting of \$2,131,780 for the administrative expense and quality improvement cost overcharges and \$140,766 for applicable lost investment income (LII) on these overcharges

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

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.”

For contract years 2012 through 2016, the FEP Director's Office approved a monthly expense allowance for budgeted administrative expenses and quality improvement costs, resulting in charges of [REDACTED] to the FEHBP ([REDACTED] in 2012, [REDACTED] in 2013, [REDACTED] in 2014, [REDACTED] in 2015, and [REDACTED] in 2016). Following each contract year, the Plan and FEP Director's Office performed a cost settlement, where the Plan made an adjustment based on the difference between the Plan's budgeted and actual settled costs. We reviewed these cost settlements and applicable supporting documentation to determine if the Plan submitted the necessary adjustments to credit and/or charge the FEHBP for the cost settlement differences.

The Plan overcharged the FEHBP \$2,131,780 for administrative expenses and quality improvement costs in 2014 and 2015.

Based on our review, we determined that the Plan correctly made the cost settlement adjustments for 2012, 2013, and 2016. However, the Plan had not completely made the applicable adjustments, totaling \$2,131,780, to credit the FEHBP for the administrative expense and quality improvement cost overcharges in 2014 and 2015.

Specifically, the Plan adjusted the letter of credit account for these overcharges but did not deposit these funds into the dedicated FEP investment account. This oversight potentially caused a shortage of funds in the FEP investment account that the Plan would have had to account for by withdrawing additional funds from the letter of credit account and/or using excess funds held in the FEP investment account. Since the Plan did not identify or experience a shortage of funds in the FEP investment account, the Plan should transfer \$2,131,780 to the FEP investment account and then adjust the letter of credit account accordingly to return these questioned overcharges to the FEHBP. As a result, the Plan returned \$2,272,546 to the FEHBP for this audit finding, consisting of \$2,131,780 for the administrative expenses and quality improvement costs that were overcharged to the FEHBP in 2014 and 2015 and \$140,766 for applicable LII on these overcharges (as calculated by the OIG).

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$2,272,546 to the FEHBP on various dates in December 2017 through March 2018 for this audit finding, consisting of \$2,131,780 for the questioned overcharges and \$140,766 for applicable LII.

Recommendation 3

We recommend that the contracting officer disallow \$2,131,780 for administrative expenses and quality improvement costs that were overcharged to the FEHBP in 2014 and 2015. However, since we verified that the Plan returned \$2,131,780 to the FEHBP for these questioned overcharges, no further action is required for this amount.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$140,766 to the FEHBP for LII calculated on the questioned administrative expense and quality improvement cost overcharges. However, since we verified that the Plan returned \$140,766 to the FEHBP for the questioned LII, no further action is required for this LII amount.

2. Prior Period Adjustments \$249,292

During our review of prior period adjustments, we determined that the Plan had not returned \$204,229 to the FEHBP for non-chargeable administrative expenses. The Plan subsequently returned these charges to the FEHBP via prior period adjustments that were submitted to the FEP Director's Office after our audit notification letter date. In addition, the Plan did not calculate LII on 30 prior period adjustments that were processed during the audit scope to return \$709,829 to the FEHBP for non-chargeable administrative expenses. As a result of this finding, the Plan returned \$249,292 to the FEHBP, consisting of \$204,229 for the questioned non-chargeable administrative expenses and \$45,063 for LII on non-chargeable administrative expenses returned untimely to the FEHBP.

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

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

For 2012 through 2016, there were 40 prior period adjustments that totaled \$11,320,955 in net credits to the FEHBP. From this universe, we initially selected and reviewed a judgmental sample of eight prior period adjustments, totaling \$77,763 in net credits, to determine if the Plan properly charged and/or timely returned these adjustment amounts to the FEHBP. Our selections included \$119,242 in credits and \$41,479 in charges based on a nomenclature review of the prior period adjustments. Because of errors identified during our initial review of these prior period adjustments, we expanded our review to include all of the prior period adjustments that were processed during the audit scope.

The Plan overcharged the FEHBP \$204,229 for non-chargeable administrative expenses.

Based on our review of prior period adjustments, we determined that the Plan had not returned \$204,229 to the FEHBP for non-chargeable administrative expenses. The Plan subsequently returned these charges to the FEHBP via 15 prior period adjustments that were submitted to the FEP Director's Office after receiving our audit notification letter (dated April 3, 2017). Additionally, we identified that the Plan did not calculate LII on 30 prior period adjustments that were processed during the audit scope to return \$709,829 to the FEHBP for non-chargeable administrative expenses. In total, we are questioning \$249,292 for this audit finding, consisting of \$204,229 for non-chargeable administrative expenses that were returned to the FEHBP after our audit notification letter date and \$45,063 for applicable LII on non-chargeable administrative expenses that were returned untimely to the FEHBP (as calculated by the OIG).

Association Response:

The Association agrees with this finding.

OIG Comment:

We verified that the Plan returned \$249,292 to the FEHBP on various dates in June 2017 through March 2018, consisting of \$204,229 for non-chargeable administrative expenses and \$45,063 for LII on non-chargeable administrative expenses returned untimely to the FEHBP.

Recommendation 5

We recommend that the contracting officer require the Plan to return \$204,229 to the FEHBP for non-chargeable administrative expenses. However, since we verified that the Plan returned \$204,229 to the FEHBP for these questioned administrative expenses, no further action is required for this amount.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$45,063 to the FEHBP for LII calculated on non-chargeable administrative expenses returned untimely to the FEHBP. However, since we verified that the Plan returned \$45,063 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Unallowable and/or Unallocable Natural Accounts **\$2,798**

The Plan charged unallowable and/or unallocable natural account expenses to the FEHBP from 2012 through 2016. As a result of this finding, the Plan returned \$2,798 to the FEHBP, consisting of \$2,650 for the questioned natural account expenses and \$148 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.”

48 CFR 31.205-1(a) states that public relations “means all functions and activities dedicated to . . . maintaining, protecting, and enhancing the image of a concern or its products”

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 2016, the Plan allocated administrative expenses of \$194,883,896 (before out-of-system adjustments) to the FEHBP from 243 natural accounts. From this universe, we selected a judgmental sample of 57 natural accounts to review, which totaled \$175,198,206 in expenses allocated to the FEHBP. We selected these natural accounts based on high dollar amounts, a trend analysis, and our nomenclature review. We reviewed the expenses from these natural accounts for being actual, allowable, allocable, and reasonable.

Based on our review, we determined that the Plan allocated and charged expenses to the FEHBP from two natural accounts that were expressly unallowable and/or did not benefit the FEHBP (unallocable). The following schedule is a summary of these questioned natural account expenses that were inappropriately charged to the FEHBP from 2012 through 2016.

Natural Account Number	Natural Account Name	Reason for Questioning	Amount Questioned
7233	Connolly Vendor Fees	Unallocable	\$1,839
7172	Contract Staffing for Public Relations Costs	Unallowable	811
Total			\$2,650

In total, the Plan returned \$2,798 to the FEHBP for this audit finding, consisting of \$2,650 for unallowable and/or unallocable natural account expenses that were charged to the FEHBP and \$148 for applicable LII on these questioned charges. We reviewed and accepted the Plan's LII calculation.

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned \$2,798 to the FEHBP on March 9, 2018, consisting of \$2,650 for the questioned unallowable and/or unallocable natural account expenses and \$148 for applicable LII.

Recommendation 7

We recommend that the contracting officer disallow \$2,650 for the questioned unallowable and/or unallocable natural account expenses charged to the FEHBP from 2012 through 2016. However, since we verified that the Plan returned \$2,650 to the FEHBP for these questioned natural account expenses, no further action is required for this amount.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$148 to the FEHBP for LII on the unallowable and/or unallocable natural account expenses. However, since we verified that the Plan returned \$148 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. STATUTORY RESERVE PAYMENTS

The audit disclosed no findings pertaining to statutory reserve payments. The Plan calculated and charged statutory reserve payments to the FEHBP in accordance with Contract CS 1039 and applicable laws and regulations.

D. CASH MANAGEMENT

1. Excess Funds in the Federal Employee Program Investment Account \$1,593,740

Our audit determined that the Plan held excess FEHBP funds of \$1,593,740, in the dedicated FEP investment account as of March 31, 2017. The Plan subsequently returned these excess funds to the letter of credit account on various dates in April 2017 through January 2018, and after receiving our audit notification letter. The primary reason why the Plan held these excess funds in the FEP investment account was due to inadvertent letter of credit account drawdown errors.

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

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 (i) states, “All health benefit refunds and recoveries, including erroneous payment recoveries, must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier.” Regarding reportable monetary findings, Contract CS 1039, Part III, Section 3.16 (a), states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected . . . prior to audit notification.”

The Plan’s FEP investment account generally includes FEP working capital funds, approved letter of credit account drawdown reimbursements, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash identified as due to the FEP. Based on Contract CS 1039, all funds deposited into the FEP investment account, such as health benefit refunds and recoveries, interest income and excess working capital, should be returned to the FEHBP by adjusting the letter of credit account within 60 days after receipt by the BCBS plan.

The Plan held excess FEHBP funds of \$1,593,740 in the FEP investment account as of March 31, 2017.

In our Standard Information Request (dated April 3, 2017), we requested the Plan to provide an analysis of the funds (such as working capital, approved letter of credit account drawdown reimbursements, health benefit refunds and recoveries, medical drug rebates, interest income, and excess funds) that were held in the dedicated FEP investment account as of March 31, 2017. In response to our Standard Information Request (during our pre-audit phase) and subsequent follow-up requests, the Plan disclosed that excess FEHBP funds of \$1,593,740 were inadvertently held in the FEP investment account as of March 31, 2017. Specifically, the Plan disclosed that \$927,949 of these excess funds were for inadvertent duplicate letter of credit account drawdowns for electronic fund transfer payments; \$627,834 were for letter of credit account drawdowns that were not supported by electronic fund transfer payments; and \$37,957 were for unidentified funds (such as potential refunds not returned to the letter of credit account).

We reviewed the Plan’s analysis and applicable supporting documentation and agreed that the Plan held excess FEHBP funds of \$1,593,740 in the dedicated FEP investment account as of March 31, 2017. As a monetary finding, we are questioning the excess funds that were held in the dedicated FEP investment account as of March 31, 2017.

Association Response:

The Association agrees with this finding. The Association also states that the Plan provided supporting documentation to document the updated procedures.

OIG Comment:

As part of our review, we verified that the Plan returned the questioned excess FEHBP funds of \$1,593,740 to the letter of credit account on various dates from April 25, 2017, through January 9, 2018. In addition, we reviewed the Plan's FEP investment account analysis that the Plan provided in response to the draft report. The Plan provided this analysis to support that corrective actions were implemented to improve the internal controls over the dedicated FEP investment account. However, when reviewing this analysis, we could not verify what specific process changes were actually implemented by the Plan, since the Plan did not provide a summary of these process changes and/or a copy of the updated written procedures with these changes.

Recommendation 9

We recommend that the contracting officer require the Plan to return \$1,593,740 to the FEHBP for the excess funds held in the FEP investment account. However, since we verified that the Plan returned \$1,593,740 to the FEHBP for the excess funds held in the FEP investment account, no further action is required for this amount.

Recommendation 10

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions to improve the internal controls over the dedicated FEP investment account. In addition, the contracting officer should require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that only necessary funds are maintained in the dedicated FEP investment account.

E. FRAUD AND ABUSE PROGRAM

The Plan timely entered substantially all of the fraud and abuse cases into the Association's FIMS.

The audit disclosed no significant findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For the period 2016 through March 31, 2017, the Plan timely entered substantially all of the fraud and abuse cases into the Association's Fraud Information Management System (FIMS).³ The Plan only used FIMS during the audit scope. In April 2017, the Plan started entering cases into the FEP SIU Tracking System, which is the Association's new system for tracking and reporting potential fraud and abuse activities. Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases set forth in FEHBP Carrier Letter 2014-29.

³ FIMS is a multi-user, web-based FEP case-tracking database that the Association's FEP Special Investigations Unit (SIU) developed in-house. Prior to April 2017, FIMS was used by the local BCBS plans' SIUs and the Association's FEP SIU to track and report potential fraud and abuse activities.

IV. SCHEDULE A - QUESTIONED CHARGES

**BLUECROSS BLUESHIELD OF NORTH CAROLINA
DURHAM, NORTH CAROLINA
QUESTIONED CHARGES**

AUDIT FINDINGS	2012	2013	2014	2015	2016	2017	2018	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS								
1. Fraud Recoveries	\$0	\$97,482	\$0	\$0	\$0	\$0	\$0	\$97,482
2. Retroactive Enrollment Reports	0	0	0	0	10,664	4,991	0	15,655
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	\$0	\$97,482	\$0	\$0	\$10,664	\$4,991	\$0	\$113,137
B. ADMINISTRATIVE EXPENSES								
1. Cost Settlement Adjustments*	\$0	\$0	\$1,894,516	\$279,910	\$46,724	\$51,396	\$0	\$2,272,546
2. Prior Period Adjustments*	25,339	143,556	30,344	29,261	15,559	5,107	126	249,292
3. Unallowable and/or Unallocable Natural Accounts*	0	0	811	1,857	58	65	7	2,798
TOTAL ADMINISTRATIVE EXPENSES	\$25,339	\$143,556	\$1,925,671	\$311,028	\$62,341	\$56,568	\$133	\$2,524,636
C. STATUTORY RESERVE PAYMENTS								
TOTAL STATUTORY RESERVE PAYMENTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
D. CASH MANAGEMENT								
1. Excess Funds in the Federal Employee Program Investment Account	\$0	\$0	\$0	\$0	\$0	\$1,593,740	\$0	\$1,593,740
TOTAL CASH MANAGEMENT	\$0	\$0	\$0	\$0	\$0	\$1,593,740	\$0	\$1,593,740
E. FRAUD AND ABUSE PROGRAM								
TOTAL FRAUD AND ABUSE PROGRAM	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL QUESTIONED CHARGES	\$25,339	\$241,038	\$1,925,671	\$311,028	\$73,005	\$1,655,299	\$133	\$4,231,513

* We included lost investment income (LII) within audit findings B1 (\$140,766), B2 (\$45,063), and B3 (\$148). Therefore, no additional LII is applicable.

APPENDIX

April 27, 2018

[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
Blue Cross Blue Shield North Carolina Plan
Audit Report Number: 1A-10-33-18-001**

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 Blue Cross Blue Shield North Carolina Plan. Our comments concerning the findings in the report are as follows:

A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

1. Fraud Recoveries \$97,482

Recommendation 1

We recommend that the contracting officer ensure that the Plan returns \$97,482 to the FEHBP (even if not recovered, as a diligent effort was not made) for the claim overpayments that have been outstanding for more than five years.

Plan Response

The Plan respectfully disagrees with this recommendation, as the Plan contends that this account is uncollectible and still remains on the Plan's voucher deduct system. The Plan's position is that by issuing overpayment recovery letters to the provider and placing the provider on a voucher deduct recovery thru future claims offset supports the Plan's due diligence efforts to recover the overpayments. [REDACTED]

[REDACTED] In addition, the FEP Administrative Policy Manual (APM) Chapter 14.3 states, "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.” [REDACTED]

[REDACTED] However, the Plan did place the provider on voucher deduct. See **Attachment A**. The Plan would like to point out that the initial settlement proposed by the Provider was less than 3% of the total amount due. To accept a settlement of this immaterial amount was not acceptable and would have set an irreversible precedence.

2. Retroactive Enrollment Reports

\$15,655

Recommendation 2

We recommend that the contracting officer require the Plan to immediately initiate efforts to recover and return \$15,655 to the FEHBP for claim overpayments.

Plan Response

The Plan has agreed with this recommendation and has successfully recovered \$9,052 from the provider. The Plan has also initiated recovery on the remaining \$6,603. Please reference **Attachment B**.

B. ADMINISTRATIVE EXPENSES

1. Cost Settlement Adjustments

\$2,272,546

Recommendation 3

We recommend that the contracting officer disallow \$2,131,780 for administrative expenses and quality improvement costs that were overcharged to the FEHBP in 2014 and 2015. However, since we verified that the Plan returned \$2,131,780 to the FEHBP for the questioned administrative expenses and quality improvement costs, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation. As stated in the recommendation, no further action is required.

Recommendation 4

We recommend that the contracting officer require the Plan to return \$140,766 to the FEHBP for LII on the administrative expenses and quality improvement costs. However, since we verified that the Plan returned \$140,766 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation. As stated in the recommendation, no further action is required.

2. Prior Period Adjustments Expenses \$249,292

Recommendation 5

We recommend that the contracting require the Plan to return \$204,292 for non-chargeable FEP administrative expenses returned after audit notification. However, since we verified that the Plan returned \$204,292 to the FEHBP for the questioned administrative expenses, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation. As stated in the recommendation, no further action is required.

Recommendation 6

We recommend that the contracting officer require the Plan to return \$45,063 to the FEHBP for LII on the non-chargeable FEP administrative expenses. However, since we verified that the Plan returned \$45,063 to the FEHBP for the questioned LII, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation. As stated in the recommendation, no further action is required.

3. Unallowable and/or Unallocable Natural Accounts **\$2,798**

Recommendation 7

We recommend that the contracting officer disallow \$2,650 for the questioned unallowable and/or unallocable natural account expenses charged to the FEHBP from 2012 through 2016. However, since we verified that the Plan returned \$2,650 to the FEHBP for these expenses, no further action is required for this amount prior period adjustments of \$262,763 to properly reduce filed administrative expenses for contract year 2012.

Plan Response

The Plan agreed with this recommendation. As stated in the recommendation, no further action is required.

Recommendation 8

We recommend that the contracting officer require the Plan to return \$148 to the FEHBP for LII on the unallowable and/or unallocable natural account expenses. However, since we verified that the Plan returned \$148 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan has agreed with this recommendation and as stated in the report dated March 16, 2018, no further action is required.

C. CASH MANAGEMENT

1. Excess Funds in the Federal Employee Program Investment Account **\$1,593,740**

Recommendation 9

We recommend that the contracting officer require the Plan to return \$1,593,740 to the FEHBP for the excess funds held in the FEP investment account. However, since we verified that the Plan returned \$1,593,740 to the FEHBP for the excess funds held in the FEP investment account, no further action is required for this amount.

Plan Response

The Plan has agreed with this recommendation and as stated in the report dated March 16, 2018, no further action is required.

Recommendation 10

We recommend that the contracting officer require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions to improve its internal controls over the dedicated FEP investment account. In addition, the contracting officer should require the Association to provide evidence or supporting documentation ensuring that the Plan has implemented corrective actions so that only necessary funds are maintained in the FEP investment account.

Plan Response

The Plan agreed with this recommendation and has provided supporting documentation to document updated procedures. **Reference Attachment C.**

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

cc: [REDACTED], Vice President, Audit Blue Cross Blue Shield of North Carolina
[REDACTED], Compliance Consultant Blue Cross Blue Shield of North Carolina
[REDACTED], Director, Program Assurance
[REDACTED], Manager, Program Assurance



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