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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  
BLUESHIELD OF CALIFORNIA ACCESS+ HMO  
SAN FRANCISCO, CALIFORNIA**

**Report Number 1D-SI-00-17-022**

**February 28, 2018**

# EXECUTIVE SUMMARY

## *Audit of BlueShield of California Access+ HMO*

Report No. ID-SI-00-17-022

February 28, 2018

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

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

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

Our audit covered the Plan's health benefit refunds and recoveries, including pharmacy and medical drug rebates, from 2012 through September 2016, and administrative expenses from 2011 through 2015. We also reviewed the Plan's cash management activities and practices related to FEHBP funds from 2012 through September 2016, and the Plan's Fraud and Abuse Program from 2015 through September 2016. Due to concerns with the Plan's vendor credit recoveries, we expanded our scope to also include these recoveries from October 2016 through June 2017.



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

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

We questioned \$4,908,939 in health benefit refunds and recoveries, administrative expenses, cash management activities, and lost investment income (LII). We also identified a procedural finding regarding the Plan's Fraud and Abuse Program. The Plan agreed with all of the questioned amounts as well as the procedural finding for the Plan's Fraud and Abuse Program.

Our audit results are summarized as follows:

- Health Benefit Refunds and Recoveries – We questioned \$3,299,254 for pharmacy drug rebates, medical drug rebates, and vendor credit recoveries that had not been returned to the FEHBP and \$177,023 for LII on rebates and recoveries that were returned untimely to the FEHBP. We verified that the Plan has returned these questioned amounts to the FEHBP.
- Administrative Expenses – We questioned \$1,208,543 in administrative expenses and applicable LII, consisting of \$832,571 for unallocable expenses related to BlueShield of California's Shield Advance project, \$351,064 for unallowable and/or unallocable cost center expenses, and \$24,908 for applicable LII. We verified that the Plan has returned \$291,373 of these questioned amounts to the FEHBP.
- Cash Management – We determined that the Plan held an excess working capital deposit of \$200,392 in the dedicated FEHBP investment account. We also questioned \$20,774 for United States Treasury offsets, \$1,979 for applicable LII on these offsets, and \$974 for investment income earned on funds held in the dedicated investment account that had not been returned to the FEHBP. We verified that the Plan has returned \$23,727 of these questioned amounts to the FEHBP.
- Fraud and Abuse Program – The Plan is *not* in compliance with the communication and reporting requirements for fraud and abuse cases that are set forth in FEHBP Carrier Letter 2014-29.

# ABBREVIATIONS

<b>CFR</b>	<b>Code of Federal Regulations</b>
<b>CL</b>	<b>Carrier Letter</b>
<b>Company</b>	<b>BlueShield of California</b>
<b>EFT</b>	<b>Electronic Funds Transfer</b>
<b>FAR</b>	<b>Federal Acquisition Regulations</b>
<b>FEHB</b>	<b>Federal Employees Health Benefits</b>
<b>FEHBAR</b>	<b>Federal Employees Health Benefits Acquisition Regulations</b>
<b>FEHBP</b>	<b>Federal Employees Health Benefits Program</b>
<b>HMO</b>	<b>Health Maintenance Organization</b>
<b>LII</b>	<b>Lost Investment Income</b>
<b>LOCA</b>	<b>Letter of Credit Account</b>
<b>OIG</b>	<b>Office of the Inspector General</b>
<b>OPM</b>	<b>U.S. Office of Personnel Management</b>
<b>Plan</b>	<b>BlueShield of California Access+ HMO</b>
<b>Treasury</b>	<b>United States Treasury</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> .....	8
<b>A. <u>HEALTH BENEFIT REFUNDS AND RECOVERIES</u></b> .....	8
1. Pharmacy and Medical Drug Rebates.....	8
2. Vendor Credit Recoveries.....	12
<b>B. <u>ADMINISTRATIVE EXPENSES</u></b> .....	14
1. Shield Advance Project.....	14
2. Unallowable and/or Unallocable Cost Centers .....	16
<b>C. <u>CASH MANAGEMENT</u></b> .....	18
1. Excess Working Capital Deposit .....	18
2. Treasury Offsets.....	20
3. Investment Income.....	22
<b>D. <u>FRAUD AND ABUSE PROGRAM</u></b> .....	23
1. Special Investigations Unit .....	23
<b>IV. SCHEDULE A – QUESTIONED CHARGES</b>	
<b>APPENDIX: BlueShield of California Access+ HMO Draft Report Response, dated December 1, 2017</b>	
<b>REPORT FRAUD, WASTE, AND MISMANAGEMENT</b>	

# 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 BlueShield of California Access+ HMO (Plan), doing business as BlueShield of California (Company). The Plan is located in San Francisco, California.

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

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

The Plan is an experience-rated health maintenance organization (HMO) that provides health benefits to Federal enrollees and their families.<sup>1</sup> Enrollment is open to all federal employees and annuitants in the Plan's service area, which includes most of Southern California.

The Plan's contract (CS 2639) with OPM is experience-rated. Thus, the costs of providing benefits in the prior year, including underwritten gains and losses that have been carried forward, are reflected in current and future years' premium rates. In addition, the contract provides that in the event of termination, unexpended program funds revert to the FEHBP Trust Fund. In recognition of these provisions, the contract requires that an accounting of program funds be submitted at the end of each contract year. The accounting is made on a statement of operations known as the Annual Accounting Statement.

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

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

All findings from our prior audit of the Plan (Report No. 1D-SJ-09-021, dated June 9, 2009), covering contract years 2003 through 2007, have been satisfactorily resolved.

The results of this audit were provided to the Plan in written audit inquiries; were discussed with Plan officials throughout the audit and at an exit conference on September 12, 2017; and were presented in detail in a draft report, dated October 17, 2017. The Plan's comments offered in response to the draft report were considered in preparing our final report and are included as an Appendix to this report.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### OBJECTIVES

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

#### Health Benefit Refunds and Recoveries

- To determine whether health benefit refunds and recoveries, including pharmacy and medical drug rebates, were returned timely to the FEHBP.

#### Administrative Expenses

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

#### Cash Management

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

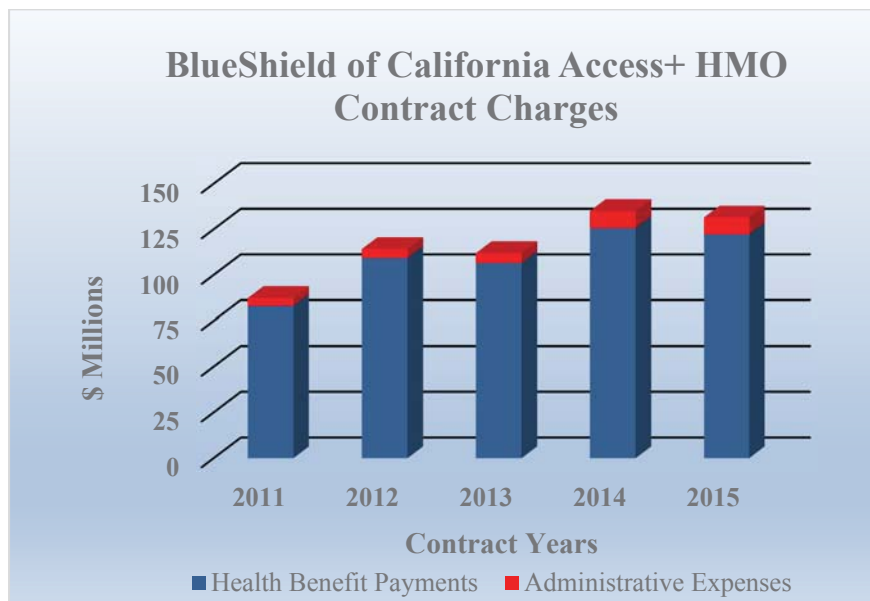
#### Fraud and Abuse Program

- To determine whether the Plan's communication and reporting of fraud and abuse cases complied with the terms of Contract CS 2639 and 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 Plan’s Annual Accounting Statements for contract years 2011 through 2015. During this period, the Plan paid approximately \$547 million in FEHBP health benefit payments and charged the FEHBP \$33 million in administrative expenses.



Specifically, we reviewed health benefit refunds and recoveries (e.g., cash and auto recoupment refunds, vendor credit recoveries, and pharmacy and medical drug rebates) and the Plan’s cash management activities and practices from 2012 through September 30, 2016, as well as administrative expenses from 2011 through 2015. We also reviewed the Plan’s Fraud and Abuse Program activities and practices from 2015 through September 30, 2016. Due to concerns with the Plan’s vendor credit recoveries, we expanded our scope to also include these recoveries from October 1, 2016, through June 30, 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. 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 San Francisco, California on various dates from April 4, 2017, through June 23, 2017. Audit fieldwork was also performed at our offices in Cranberry Township, Pennsylvania; Jacksonville, Florida; and Washington, D.C. through September 12, 2017. Throughout the audit process, the Plan did an excellent 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 health benefit refunds and recoveries. For the period 2012 through September 30, 2016, we also judgmentally selected and reviewed the following FEHBP items:

### *Health Benefit Refunds*

- A high dollar sample of 25 health benefit refunds returned via auto recoupments, totaling \$2,350,246 (from a universe of 201 refunds returned via auto recoupments, totaling \$4,405,612). Our high dollar sample included the five highest auto recoupment amounts from each year in the audit scope.

- A high dollar sample of 10 refund summary deposits, totaling \$494,507 (from a universe of 212 refund summary deposit amounts, totaling \$1,190,391).<sup>2</sup> Our high dollar sample included the 10 highest refund summary deposit amounts during the audit scope.

#### Other Health Benefit Credits and Recoveries

- All 20 pharmacy drug rebate amounts, totaling \$8,991,718, for the audit scope.
- 13 high dollar vendor credit recoveries (i.e., received by the Plan from provider audit and/or subrogation vendors), totaling \$311,373, from a universe of 120 credit recoveries, totaling \$398,912, from September 2015 through September 2016. For this sample, we judgmentally selected all vendor credit recoveries of \$5,000 or more. Since we identified that the Plan had not returned these recoveries to the FEHBP, we expanded our review to include all vendor credit recoveries that the Plan had received from January 2012 through August 2015 and October 2016 through June 30, 2017.
- 23 medical drug rebate amounts, totaling \$128,806, from a universe of 50 medical drug rebate amounts, totaling \$150,463. For this sample, we judgmentally selected all medical drug rebate amounts of \$2,000 or more for the audit scope.

We reviewed these samples to determine if health benefit refunds, vendor credit recoveries, and pharmacy and medical drug rebates were timely returned to the FEHBP. Since we did not use statistical sampling, the results of these samples were not projected to the applicable universes.

We judgmentally reviewed administrative expenses charged to the FEHBP for contract years 2011 through 2015. Specifically, we reviewed administrative expenses relating to cost centers and natural accounts.<sup>3</sup> We used the FEHBP contract, the FAR, and the FEHBPBAR to determine the allowability, allocability, and reasonableness of charges.

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<sup>2</sup> Each of these summary deposits usually included numerous health benefit refund cash receipt amounts.

<sup>3</sup> In general, the Plan records administrative expense transactions to natural accounts that are then allocated through cost centers to the Plan's various lines of business, including the FEHBP. The Plan allocated administrative expenses of \$36,848,581 to the FEHBP from 647 cost centers that contained 250 natural accounts. From this universe, we selected a judgmental sample of 56 cost centers to review, which totaled \$17,016,290 in expenses allocated to the FEHBP. We also selected a judgmental sample of 38 natural accounts to review, which totaled \$8,530,089 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 based on high dollar amounts, high dollar allocation methods, and our nomenclature review and trend analysis. The natural accounts were only selected based on a nomenclature review. 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.

We reviewed the Plan's cash management activities and practices to determine whether the Plan handled FEHBP funds in accordance with Contract CS 2639 and applicable laws and regulations. Specifically, we reviewed letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, United States Treasury (Treasury) offsets, and interest income transactions from 2012 through September 30, 2016, as well as the Plan's dedicated FEHBP investment account balance as of September 30, 2016.

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 2639 and FEHBP Carrier Letter 2014-29.

# III. AUDIT FINDINGS AND RECOMMENDATIONS

## A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS

### 1. Pharmacy and Medical Drug Rebates \$2,107,281

Our audit determined that the Plan had not returned pharmacy and medical drug rebates, totaling \$2,000,113, to the FEHBP as of September 30, 2016. The Plan subsequently returned these rebates to the FEHBP in November 2016, March 2017 and August 2017, from 58 to 1,120 days late and after receiving our audit notification letter. Additionally, the Plan untimely returned pharmacy and medical drug rebates, totaling \$7,208,829, to the FEHBP during the audit scope. As a result, we are questioning \$2,107,281 for this audit finding, consisting of \$2,000,113 for the questioned pharmacy and medical drug rebates and \$107,168 for lost investment income (LII) on pharmacy and medical drug rebates returned untimely to the FEHBP.

48 CFR 31.201-5 states, “The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.”

Contract CS 2639, 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.”

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 2639, Part III, section 3.16 (a), states, “Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were already identified and corrected (i.e., . . . untimely health benefit refunds were already processed and returned to the FEHBP) prior to audit notification.”

**The Plan returned pharmacy and medical drug rebates of \$2,000,113 to the FEHBP from 58 to 1,120 days late and after receiving our audit notification letter.**

The Plan coordinates pharmacy benefits as the pharmacy benefit manager and negotiates pharmacy drug rebate programs with various drug manufacturers. The Plan also participates in medical drug rebate programs with various drug manufacturers. Both pharmacy and medical drug rebates are determined based on claims for the applicable drugs received through the Plan's pharmacy benefit program or drugs administered in a physician's office. Pharmacy and medical drug rebates are received multiple times a year (usually on a quarterly basis) by the Plan and credited to the participating groups, including the FEHBP. Prior to July 2013, the Plan allocated and returned pharmacy and medical drug rebates to the FEHBP right after receiving the individual rebates. Starting in July 2013, the Plan began waiting to receive all of the applicable rebates for a particular quarter before allocating and returning those rebate amounts to the FEHBP. This process change inherently causes the Plan to return the pharmacy and medical drug rebates untimely to the FEHBP.

#### Pharmacy Drug Rebates

For the period 2012 through September 30, 2016, the Plan received 20 pharmacy drug rebate amounts, totaling \$562,738,199, for all participating groups. The Plan allocated \$8,991,718 of these pharmacy drug rebate amounts to the FEHBP. We selected and reviewed all of the FEHBP pharmacy drug rebate amounts to determine if the Plan properly allocated and timely returned these rebate amounts to the FEHBP. Based on our review, we identified the following exceptions:

- The Plan had not returned three pharmacy drug rebate amounts, totaling \$1,898,421, to the FEHBP as of September 30, 2016. The Plan subsequently returned these rebate amounts to the FEHBP from 136 to 973 days late, after receiving our audit notification letter and/or because of our audit. Therefore, we are questioning this amount as a monetary finding as well as \$37,459 for LII on these pharmacy drug rebates returned untimely to the FEHBP.
- The Plan returned 17 pharmacy drug rebate amounts, totaling \$7,093,296, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these rebate amounts into the FEHBP investment account from 29 to 1,084 days late, before returning these funds to the LOCA. As a result, we are questioning \$67,918 for LII on these pharmacy drug rebates returned untimely to the FEHBP.

Additionally, when reconciling the total FEHBP pharmacy drug rebates for the audit scope (\$8,991,718) to the total pharmacy drug rebates returned to the FEHBP by the Plan via LOCA drawdown adjustments (\$8,934,362), we identified a variance of \$57,356 related to portions of multiple rebate amounts that were inadvertently not returned to the FEHBP. As a result, the Plan returned this variance of \$57,356 to the FEHBP.

In total, the Plan returned \$2,061,154 to the FEHBP for these pharmacy drug rebate exceptions, consisting of \$1,955,777 (\$1,898,421 plus \$57,356) for the questioned pharmacy drug rebates and \$105,377 for applicable LII on the rebates returned untimely to the FEHBP.

### Medical Drug Rebates

For the period 2012 through September 30, 2016, the Plan received 50 FEHBP medical drug rebate amounts, totaling \$150,463, from various drug manufacturers. This universe consisted of individual medical rebate amounts as well rebate amounts that were grouped quarterly. From this universe, we judgmentally selected and reviewed 23 medical drug rebate amounts, totaling \$128,806, to determine if the Plan timely returned these rebate amounts to the FEHBP. Our sample included all FEHBP medical drug rebate amounts of \$2,000 or more. Based on our review, we identified the following exceptions:

- The Plan had not returned three medical drug rebate amounts, totaling \$36,489, to the FEHBP. The Plan subsequently returned these rebates to the FEHBP from 58 to 1,120 days late, after receiving our audit notification letter and/or because of our audit. Therefore, we are questioning this amount as a monetary finding as well as \$1,147 for LII on these medical drug rebates returned untimely to the FEHBP.
- The Plan had not completely returned four medical drug rebate amounts, totaling \$7,847, which the Plan then returned to the FEHBP.
- The Plan returned 19 medical drug rebate amounts, totaling \$115,533, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these rebate amounts into the FEHBP investment account from 8 to 286 days late, before returning these funds to the LOCA. As a result, we are questioning \$644 for LII on these medical drug rebates returned untimely to the FEHBP.

In total, the Plan returned \$46,127 to the FEHBP for these medical drug rebate exceptions, consisting of \$44,336 (\$36,489 plus \$7,847) for the questioned medical drug rebates and \$1,791 for applicable LII on the rebates returned untimely to the FEHBP.

**Plan Response:**

*The Plan agrees with this finding.*

**OIG Comment:**

As part of our review, we verified that the Plan returned \$2,107,281 to the FEHBP on various dates in November 2016 through September 2017, consisting of \$2,000,113 (\$1,955,777 plus \$44,336) for the questioned pharmacy and medical drug rebates and \$107,168 (\$105,377 plus \$1,791) for applicable LII.

**Recommendation 1**

We recommend that the contracting officer require the Plan to return \$2,000,113 to the FEHBP for the questioned pharmacy and medical drug rebates. However, since we verified that the Plan returned \$2,000,113 to the FEHBP for these questioned pharmacy and medical drug rebates, no further action is required for this amount.

**Recommendation 2**

We recommend that the contracting officer require the Plan to return \$107,168 to the FEHBP for the questioned LII on the pharmacy and medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan returned \$107,168 to the FEHBP for the questioned LII, no further action is required for this LII amount.

**Recommendation 3**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that pharmacy and medical drug rebates are timely returned to the FEHBP.

## **2. Vendor Credit Recoveries**

**\$1,368,996**

Our audit determined that the Plan had not returned vendor credit recoveries, totaling \$1,299,141, to the FEHBP as of June 30, 2017. The Plan subsequently returned these recoveries to the FEHBP in August 2017. As a result, we are questioning \$1,368,996 for this audit finding, consisting of \$1,299,141 for these previously unreturned vendor credit recoveries and \$69,855 for LII on these recoveries returned untimely to the FEHBP.

As previously cited from Contract CS 2639, all health benefit refunds and recoveries must be deposited into the FEHBP investment account within 30 days and returned to the FEHBP 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.

For the period September 2015 through September 2016, the Plan provided us a listing of 120 vendor credit recoveries, totaling \$398,912, which were received from subrogation and provider audit recovery vendors. Although we initially requested the Plan to provide us a complete universe for the period 2012 through September 2016, the Plan informed us that vendor credit recoveries were not tracked prior to September 2015. Therefore, from the Plan's partial universe, we selected a judgmental sample of 13 vendor credit recoveries, totaling \$311,373, to determine if the Plan timely returned these recoveries to the FEHBP. Our sample included all vendor credit recoveries of \$5,000 or more. Based on our review, we determined that the Plan had not returned the vendor credit recoveries from the partial universe, totaling \$398,912, to the FEHBP. As a result of our finding, the Plan returned these recoveries of \$398,912 to the FEHBP in August 2017.

As previously noted, the Plan had not tracked the FEHBP vendor credit recoveries from 2012 through August 2015. Since the Plan held contracts with subrogation and provider audit vendors throughout this period, we generally concluded that the Plan had not returned vendor credit recoveries during this period either. Therefore, we estimated the financial impact of these potentially unreturned FEHBP recoveries for the period 2012 through August 2015, based on a monthly average using the available data from September 2015 through September 2016. Based on our analysis, we determined that the Plan potentially owed the FEHBP \$1.3 million in vendor credit recoveries for the period 2012 through August 2015. In response to our analysis, the Plan provided documentation to support that the Plan actually received \$682,186 in FEHBP vendor credit recoveries during this period. Based on our review of this documentation, we agreed with the Plan's



total amount for these vendor credit recoveries. As a result of our finding, the Plan also returned these recoveries of \$682,186 to the FEHBP in August 2017.

Due to this oversight by the Plan, we expanded our audit scope to also include the vendor credit recoveries received by the Plan from October 2016 through June 2017. For this period, we determined that the Plan had not returned vendor credit recoveries, totaling \$218,043, to the FEHBP. As a result of our finding, the Plan also returned these recoveries of \$218,043 to the FEHBP in August 2017.

**Our audit identified unreturned vendor credit recoveries, totaling \$1,299,141, which the Plan then returned, along with LII of \$69,855, to the FEHBP.**

In total, the Plan returned \$1,368,996 to the FEHBP for this audit finding, consisting of \$1,299,141 (\$398,912 plus \$682,186 plus \$218,043) for the questioned vendor credit recoveries and \$69,855 for applicable LII (as calculated by the Plan) on these recoveries returned untimely to the FEHBP. We reviewed and accepted the Plan's LII calculation.

**Plan Response:**

*The Plan agrees with this finding.*

**OIG Comment:**

As part of our review, we verified that the Plan returned \$1,368,996 to the FEHBP in August and September of 2017, consisting of \$1,299,141 for the questioned vendor credit recoveries and \$69,855 for applicable LII.

**Recommendation 4**

We recommend that the contracting officer require the Plan to return \$1,299,141 to the FEHBP for the questioned vendor credit recoveries. However, since we verified that the Plan returned \$1,299,141 to the FEHBP for these questioned vendor credit recoveries, no further action is required for this amount.

### **Recommendation 5**

We recommend that the contracting officer require the Plan to return \$69,855 to the FEHBP for the questioned LII on the vendor credit recoveries that were returned untimely to the FEHBP. However, since we verified that the Plan returned \$69,855 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### **Recommendation 6**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation demonstrating that the Plan has implemented the necessary corrective actions to ensure that vendor credit recoveries are returned timely to the FEHBP.

## **B. ADMINISTRATIVE EXPENSES**

### **1. Shield Advance Project**

**\$857,479**

The Plan charged unallocable cost center expenses to the FEHBP in 2012 and 2013 related to the Company's Shield Advance project. This Shield Advance project was for an extensive, multi-year implementation of the Plan Facets™ Claims System. Specifically, the Plan overcharged the FEHBP \$316,187 in 2012 and \$516,384 in 2013 for these unallocable cost center expenses. As a result of this finding, the Plan returned \$291,373 to the FEHBP, consisting of \$266,465 of the questioned cost center expenses and \$24,908 for applicable LII.

Contract CS 2639, Part III, section 3.2 (b)(1) states, "The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable."

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.

While concurrently doing an audit of the Company's Federal Employee Program product, we noted that the Company's Shield Advance costs in 2012 and 2013 did not benefit the FEHBP (unallocable). For that product, we also noted that the Company did not charge the FEHBP for the cost center expenses related to this project for those years. To also ensure that the Company did not charge these 2012 and 2013 Shield Advance costs to the FEHBP for the BlueShield of California Access+ HMO product, we reviewed the Plan's cost center listings to determine if the Plan properly excluded these expenses from the costs charged to the FEHBP.

**The Plan charged \$832,571 to the FEHBP in 2012 and 2013 for Shield Advance project costs that were unallocable.**

Based on our review of the Plan's cost center listings, we determined that the Plan inappropriately allocated and charged \$832,571 in administrative expenses to the FEHBP from 128 cost centers related to the Shield Advance project. As a result of this finding, the Plan returned \$291,373 to the FEHBP, consisting of \$266,465 of the questioned cost center expenses and \$24,908 for applicable LII (as calculated by the Plan). We reviewed and accepted the Plan's LII calculation. We also verified that the Plan returned these specific amounts to the FEHBP.

**Plan Response:**

*The Plan agrees with this finding.*

**OIG Comment:**

As part of our review, we verified that the Plan had a total of \$566,106 in unreimbursed allowable costs, consisting of \$136,187 in 2012 and \$429,919 in 2013. Therefore, the Plan is not actually required to return \$566,106 of the questioned cost center expenses to the FEHBP. However, the Plan is required to make accounting adjustments for these questioned amounts to reduce the filed costs for 2012 and 2013. Since there is no impact on the amount charged to the FEHBP, no LII calculation is necessary on this amount of the audit finding. Additionally, we verified that the Plan returned the remaining questioned cost center expenses of \$266,465 (\$832,571 minus \$566,106) to the FEHBP as well as applicable LII of \$24,908.

### **Recommendation 7**

We recommend that the contracting officer disallow \$832,571 for the questioned Shield Advance project cost center expenses charged to the FEHBP in 2012 and 2013.

However, since we verified that the Plan returned \$266,465 of these questioned expenses to the FEHBP, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$832,571 (i.e., \$316,187 for 2012 and \$516,384 for 2013) to properly reduce the filed administrative expenses for 2012 and 2013.

### **Recommendation 8**

We recommend that the contracting officer require the Plan to return \$24,908 to the FEHBP for LII on the questioned cost center expenses. However, since we verified that the Plan returned \$24,908 to the FEHBP for the questioned LII, no further action is required for this LII amount.

## **2. Unallowable and/or Unallocable Cost Centers \$351,064**

The Plan charged unallowable and/or unallocable cost center expenses of \$351,064 to the FEHBP from 2011 through 2015.

As previously cited from Contract CS 2639, costs charged to the FEHBP must be actual, allowable, allocable, and reasonable.

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 . . .” 48 CFR 31.205-1(f) states, “Unallowable public relations and advertising costs include . . . All public relations and advertising costs . . . whose primary purpose is to promote the sale of products or services by stimulating interest in a product or product line . . . or by disseminating messages calling favorable attention to the contractor for purposes of enhancing the company image to sell the company’s products or services.”

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 2011 through 2015, the Plan allocated administrative expenses of \$36,848,581 (before adjustments) to the FEHBP from 647 cost centers. From this universe, we selected a judgmental sample of 56 cost centers to review, which totaled \$17,016,290 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. In addition, because of our simultaneous audit of the Company's Federal Employee Program product, we identified and reviewed an additional cost center with potential unallowable and/or unallocable expenses that were charged to the FEHBP.

Based on our review, we determined that the Plan allocated and charged expenses to the FEHBP from five cost centers during the period 2011 through 2015 that were expressly unallowable and/or did not benefit the FEHBP (unallocable). The following schedule is a summary of these questioned cost center expenses that were inappropriately charged to the FEHBP from 2011 through 2015.

Cost Center Number	Cost Center Name	Reason for Questioning	Amount Questioned
6610H	Creative Services	Unallowable	\$137,840
6400H	Employer Marketing	Unallowable	80,843
6050H	Market Insight	Unallocable	61,336
6612H	Marketing Delivery	Unallowable	51,702
6300R	Markets Executive	Unallowable	19,343
<b>Total</b>			<b>\$351,064</b>

In total, we are questioning \$351,064 for these unallowable and/or unallocable cost center expenses charged to the FEHBP.

**Plan Response:**

*The Plan agrees with this finding.*

**OIG Comment:**

The Plan has unreimbursed allowable costs from 2011 through 2015. Since the Plan's total unreimbursed costs exceed the uncontested questioned costs, the Plan only needs to make accounting adjustments to reduce the filed costs for 2011 through 2015. Therefore, there is no impact on the amounts charged to the FEHBP, which makes calculating LII unnecessary for this audit finding.

## **Recommendation 9**

We recommend that the contracting officer disallow \$351,064 for the questioned unallowable and/or unallocable cost center expenses charged to the FEHBP from 2011 through 2015. However, since we verified that the Plan has unreimbursed allowable costs in excess of the amount questioned, the contracting officer only needs to ensure that the Plan makes the appropriate accounting adjustments of \$351,064 (i.e., \$20,246 for 2011, \$24,364 for 2012, \$42,969 for 2013, \$131,602 for 2014, and \$131,883 for 2015) to properly reduce the filed administrative expenses for 2011 through 2015.

## **C. CASH MANAGEMENT**

### **1. Excess Working Capital Deposit** **\$200,392**

As of September 30, 2016, the Plan held a working capital deposit of \$200,392 over the amount needed to meet the Plan's daily cash needs for FEHBP claim payments.

OPM's "Letter of Credit System Guidelines" (Guidelines), dated May 2009, state: "Carriers should maintain a working capital balance equivalent to an average of 2 days of paid claims. The working capital fund should be established using federal funds. Carriers are required to monitor their working capital funds on a monthly basis and adjust if necessary on a quarterly basis. The interest earned on the working capital funds must be credited to the FEHBP at least on a monthly basis. The working capital is not required but strongly recommended." Based on the Guidelines, the Carrier's calculation must also exclude electronic fund transfers (EFTs).

Based on the regulations governing the financing of Federal programs by the letter of credit method, as established in 31 CFR 205 (Treasury Department Circular No. 10750), EFTs should not be included in the calculation. These instructions are established under the provisions of Treasury Department Circular No. 1083 (Regulations Governing the Utilization of the U.S. TFCS), 5 CFR Part 890, and 48 CFR Chapter 16.

Based on industry practice (e.g., other FEHBP experience-rated Carriers), the working capital deposit should be recalculated on a regular basis to determine if the amount currently maintained is adequate to meet the Plan's daily cash needs for FEHBP claim payments. If the deposit is not adequate (either over or underfunded), the Plan should make an appropriate adjustment.

We noted that the Plan reviewed the deposit on a regular basis (usually quarterly) during the period 2012 through September 2016 and made several adjustments to the deposit during the audit scope. When reviewing the Plan's calculations, we determined that the Plan inappropriately included EFTs in the calculations. As of September 30, 2016, the Plan held a deposit amount of \$748,000 in the dedicated FEHBP investment account.

**The Plan held an excess working capital deposit of \$200,392 in the dedicated FEHBP investment account as of September 30, 2016.**

To determine if the Plan maintained an appropriate deposit amount, we recalculated what the Plan's deposit should be and determined that, as of September 30, 2016, the Plan should have only maintained a working capital deposit of \$547,608. Our calculation excluded EFTs. Therefore, we determined that, as of September 30, 2016, the Plan held a working capital deposit with \$200,392 (\$748,000 minus \$547,608) over the amount actually needed to meet the Plan's daily cash needs for FEHBP claim payments. Since the Plan maintained these excess funds in the dedicated FEHBP investment account, LII is not applicable for this finding.

**Plan Response:**

*The Plan agrees with this finding.*

**OIG Comment:**

When responding to this finding during the fieldwork phase, the Plan also stated that "if the Plan were to exclude ACH claim payments (EFTs) in the calculation, there is a risk of overdraft. EFTs make up approximately 80% of the claim payments each day and clear directly from the investment accounts that hold Working Capital. While the Plan's Treasury department does receive notification from Facets of the EFTs, the timing is not reliable enough to the extent that the Plan could drawdown the required funds ahead of time to prevent overdraft . . . Furthermore, the Plan has been transparent as to the inclusion of EFTs in communications with OPM. The Plan always obtained approval from the contracting officer before making changes to Working Capital via LOCA. To be consistent with the written regulation, the Plan will seek approval from OPM regarding this matter."

### **Recommendation 10**

We recommend that the contracting officer require the Plan to return \$200,392 to the FEHBP for the excess working capital deposit.

### **Recommendation 11**

We recommend that the Plan implement corrective actions to ensure that the working capital deposit is properly calculated in accordance with the Guidelines and applicable regulations. If an exception for the working capital calculation is necessary, then the Plan should request prior approval (a waiver) from the contracting officer.

### **Recommendation 12**

Since the use of EFTs by the experience-rated Carriers to pay FEHBP claim payments have substantially increased in the past several years, we recommend that the contracting officer(s) and/or OPM's Benefits Insurance Accounting Office review and revise (if necessary) the Guidelines, including the formula for the working capital calculation, and propose regulation changes if applicable.

## **2. Treasury Offsets**

**\$22,753**

During our review of LOCA drawdowns, we determined that the Plan had not returned \$20,774 to the FEHBP for two offsets taken from the LOCA by the Treasury as of September 30, 2016. As a result of this finding, the Plan returned \$22,753 to the FEHBP, consisting of \$20,774 for these questioned Treasury offsets against the LOCA and \$1,979 for applicable LII.

As previously cited from Contract CS 2639, costs charged to the FEHBP must be 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.

The Treasury will occasionally recover non-FEHBP debts from participating FEHBP experienced-rated Carriers by reducing LOCA drawdowns made to the Carriers for FEHBP claim payments. If this occurs, the participating Carrier should make the FEHBP whole by transferring funds into the FEHBP investment account to replenish the funds that were taken.



**The Plan had not returned \$20,774 to the FEHBP for Treasury offsets taken from the LOCA.**

During our review of the Plan's LOCA drawdowns, we identified two instances where the Treasury offset the Plan's LOCA drawdowns by a total of \$20,774. We determined that the Plan did not withdraw additional funds from the LOCA to cover the shortages caused by these Treasury offsets. However, we also determined that the Plan did not transfer funds into the FEHBP investment account to cover these Treasury offsets, which left the FEHBP investment account short by \$20,774 during the audit scope.

In total, the Plan returned \$22,753 to the FEHBP for this audit finding, consisting of \$20,774 for the two questioned Treasury offsets against the LOCA and \$1,979 for applicable LII (as calculated by the Plan) on these funds returned untimely to the FEHBP. We reviewed and accepted the Plan's LII calculation.

**Plan Response:**

*The Plan agrees with this finding.*

**OIG Comment:**

We verified that the Plan returned \$22,753 to the FEHBP in July 2017 for this audit finding, consisting of \$20,774 for the questioned Treasury offsets and \$1,979 for applicable LII.

**Recommendation 13**

We recommend that the contracting officer require the Plan to return \$20,774 to the FEHBP for the questioned Treasury offsets. However, since we verified that the Plan returned \$20,774 to the FEHBP for the questioned Treasury offsets, no further action is required for this amount.

**Recommendation 14**

We recommend that the contracting officer require the Plan to return \$1,979 to the FEHBP for LII on the questioned Treasury offsets. However, since we verified that the Plan returned \$1,979 to the FEHBP for the questioned LII, no further action is required for this LII amount.

### 3. Investment Income

\$974

Our audit determined that the Plan had not returned investment income of \$974 to the FEHBP as of September 30, 2016. This investment income was earned on funds held in the Plan's dedicated FEHBP investment account from 2012 through September 30, 2016. As a result of our audit, the Plan returned this investment income of \$974 to the FEHBP.

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

As previously cited from Contract CS 2639, audit findings in the scope of an OIG audit are reportable as questioned charges unless the Plan provides documentation supporting that the findings were already identified and corrected prior to audit notification.

From 2012 through September 30, 2016, the Plan earned investment income of \$18,401 on the funds in the dedicated FEHBP investment account. After receiving our audit notification letter (dated October 3, 2016) and in response to our Audit Information Request (during our pre-audit phase), the Plan self-disclosed that \$974 of this investment income amount inadvertently had not been returned to the FEHBP. As a result, the Plan returned this investment income amount to the FEHBP in May 2017. Since the Plan held this investment income in the dedicated FEHBP investment account, LII is not applicable for this audit finding.

#### *Plan Response:*

*The Plan agrees with this finding.*

#### OIG Comment:

As part of our review, we verified that the Plan returned \$974 to the FEHBP for the questioned investment income.

## **Recommendation 15**

We recommend that the contracting officer require the Plan to return \$974 to the FEHBP for the questioned investment income. However, since we verified that the Plan returned \$974 to the FEHBP for this questioned investment income, no further action is required for this amount.

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

### **1. Special Investigations Unit**

### **Procedural**

**The Plan did not report all fraud and abuse cases to the OIG.**

The Plan is not in compliance with the communication and reporting requirements for fraud and abuse cases set forth in the FEHBP Carrier Letter (CL) 2014-29. Specifically, the Plan did not report all fraud and abuse 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 . . . [fraud, waste or abuse] that has occurred against the FEHB Program. OPM-OIG considers a potential reportable . . . [fraud, waste or abuse] 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.

For the period 2015 through September 30, 2016, the Plan opened eight fraud and abuse cases with potential FEHBP exposure. We reviewed these fraud and abuse cases to determine if the cases were properly reported to the OIG, as required by CL 2014-29. Based on our review, we determined that the Plan did not submit notifications to the OIG for these cases.

Although the Plan did not directly report these cases to the OIG, we noted that these cases were reported to the OIG under BlueShield of California’s Federal Employee Program product. Nevertheless, each Carrier has a contractual obligation to submit its own notifications to the OIG. Ultimately, the Plan’s non-reporting of potential FEHBP cases to the OIG has resulted in a failure to meet the communication and reporting requirements that are set forth in CL 2014-29.

In instances where this Plan's cases are different from BlueShield of California's Federal Employee Program product, the lack of notifications could affect the OIG's ability to investigate whether other FEHBP experience-rated Carriers are exposed to the identified fraudulent activity. Consequently, this could result in additional improper payments being made by other FEHBP Carriers.

**Plan Response:**

*The Plan agrees with this finding.*

**Recommendation 16**

We recommend that the contracting officer require the Plan to provide evidence or supporting documentation ensuring that the Plan's Special Investigations Unit 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 and CL 2017-13 (OPM Federal Employees Health Benefits Fraud, Waste, and Abuse).<sup>4</sup>

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<sup>4</sup> CL 2017-13 (dated November 20, 2017) consolidates and updates the information from CL 2014-29, which is superseded by this guidance. CL 2017-13 also supplements guidance from the FEHBP contract (Section 1.9 – Plan Performance).

# IV. SCHEDULE A - QUESTIONED CHARGES

BLUESHIELD OF CALIFORNIA ACCESS+ HMO SAN FRANCISCO, CALIFORNIA								
QUESTIONED CHARGES								
AUDIT FINDINGS	2011	2012	2013	2014	2015	2016	2017	TOTAL
<b>A. HEALTH BENEFIT REFUNDS AND RECOVERIES</b>								
1. Pharmacy and Medical Drug Rebates*	\$16	\$7,989	\$14,415	\$494,687	\$17,702	\$1,561,626	\$10,846	\$2,107,281
2. Vendor Credit Recoveries*	5,857	235,950	159,041	369,404	340,882	57,091	200,771	1,368,996
<b>TOTAL HEALTH REFUNDS AND RECOVERIES</b>	<b>\$5,873</b>	<b>\$243,939</b>	<b>\$173,456</b>	<b>\$864,091</b>	<b>\$358,584</b>	<b>\$1,618,717</b>	<b>\$211,617</b>	<b>\$3,476,277</b>
<b>B. ADMINISTRATIVE EXPENSES</b>								
1. Shield Advance Project*	\$0	\$316,187	\$519,200	\$5,494	\$5,998	\$5,840	\$4,760	\$857,479
2. Unallowable and/or Unallocable Cost Centers	20,246	24,364	42,969	131,602	131,883	0	0	\$351,064
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$20,246</b>	<b>\$340,551</b>	<b>\$562,169</b>	<b>\$137,096</b>	<b>\$137,881</b>	<b>\$5,840</b>	<b>\$4,760</b>	<b>\$1,208,543</b>
<b>C. CASH MANAGEMENT</b>								
1. Excess Working Capital Deposit	\$0	\$0	\$0	\$0	\$0	\$200,392	\$0	\$200,392
2. Treasury Offsets*	0	20,812	325	428	468	455	265	22,753
3. Investment Income	0	974	0	0	0	0	0	974
<b>TOTAL CASH MANAGEMENT</b>	<b>\$0</b>	<b>\$21,786</b>	<b>\$325</b>	<b>\$428</b>	<b>\$468</b>	<b>\$200,847</b>	<b>\$265</b>	<b>\$224,119</b>
<b>D. FRAUD AND ABUSE PROGRAM</b>								
1. Special Investigations Unit (Procedural)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL FRAUD AND ABUSE PROGRAM</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>TOTAL QUESTIONED CHARGES</b>	<b>\$26,119</b>	<b>\$606,276</b>	<b>\$735,950</b>	<b>\$1,001,615</b>	<b>\$496,933</b>	<b>\$1,825,404</b>	<b>\$216,642</b>	<b>\$4,908,939</b>
* We included lost investment income (LII) within audit findings A1 (\$107,168), A2 (\$69,855), B1 (\$24,908), and C2 (\$1,979). Therefore, no additional LII is applicable.								

**APPENDIX**

[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 20415-1100

December 1, 2017

Dear [REDACTED]:

As noted in the FEP HMO draft audit report, the Plan agrees with its findings, conclusions and recommendations. Therefore, I have no further comments or supplementary information to provide.

Sincerely,

[REDACTED]

[REDACTED]

Federal Employee Program Senior Accountant



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

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