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

Final Audit Report

AUDIT OF
BLUESHIELD OF CALIFORNIA
SAN FRANCISCO, CALIFORNIA

Report Number 1A-10-67-17-021
March 29, 2018

EXECUTIVE SUMMARY

Audit of BlueShield of California

Report No. 1A-10-67-17-021 **March 29, 2018**

Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that BlueShield of California (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 September 2016, and administrative expenses from 2011 through 2015, 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 September 2016, and the Plan's Fraud and Abuse Program from 2015 through September 2016.

Michael R. Esser
Assistant Inspector General for Audits

What did we find?

We questioned $8,059,422 in health benefit refunds and recoveries, medical drug rebates, administrative expenses, cash management activities, and lost investment income (LII). The BlueCross BlueShield Association and Plan agreed with all of the questioned amounts. As part of our review, we verified that the Plan returned these questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- Miscellaneous Health Benefit Payments and Credits – We questioned $232,164 for five health benefit refunds, four medical drug rebate amounts, and one fraud recovery that had not been returned to the FEHBP, and $10,187 for LII on Federal Employee Program (FEP) funds that were returned untimely to the FEHBP.

- Administrative Expenses – We questioned $5,723,051 in administrative expenses and applicable LII, consisting of $3,560,986 for unreasonable expenses related to the Plan's Shield Advance project, $1,473,042 for unallowable public relations expenses, $285,876 for cost center true-up adjustments not made, $22,182 for quality improvement cost overcharges, $11,349 for post-retirement benefit cost overcharges, and $369,616 for applicable LII.

- Cash Management – We determined that the Plan held an excess working capital deposit of $2,086,599 in the dedicated FEP investment account. We also questioned $7,264 for FEHBP funds that were not maintained in the dedicated FEP investment account and $157 for applicable LII.

- 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**
Contract	**Contract CS 1039**
DFUNC	**Detailed Functional Requirement**
EFT	**Electronic Funds Transfer**
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**
FEPDO	**Federal Employee Program Director's Office**
FIMS	**Fraud Information Management System**
HMO	**Health Maintenance Organization**
LII	**Lost Investment Income**
OIG	**Office of the Inspector General**
OPM	**U.S. Office of Personnel Management**
Plan	**BlueShield of California**
PRB	**Post-Retirement Benefit**
SPI	**Special Plan Invoice**

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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 BlueShield of California (Plan). 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 BlueCross BlueShield Association (Association), on behalf of participating local BlueCross and/or BlueShield (BCBS) plans, has entered into a Government-wide Service Benefit Plan contract (contract or CS 1039) with OPM to provide a health benefit plan authorized by the FEHB Act. The Association delegates authority to participating local BCBS plans throughout the United States to process the health benefit claims of its federal subscribers. 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 (FEP[1]) Director's Office in Washington, D.C. to provide centralized management for the Service Benefit Plan. The FEP Director's Office coordinates the administration of the contract with the Association, member BCBS plans, and OPM.

The Association has also established an FEP Operations Center. The activities of the FEP Operations Center are performed by 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

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[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-10-67-12-004, dated January 10, 2013), for contract years 2006 through 2010, 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 September 12, 2017; and were presented in detail in a draft report, dated November 17, 2017. 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.

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.

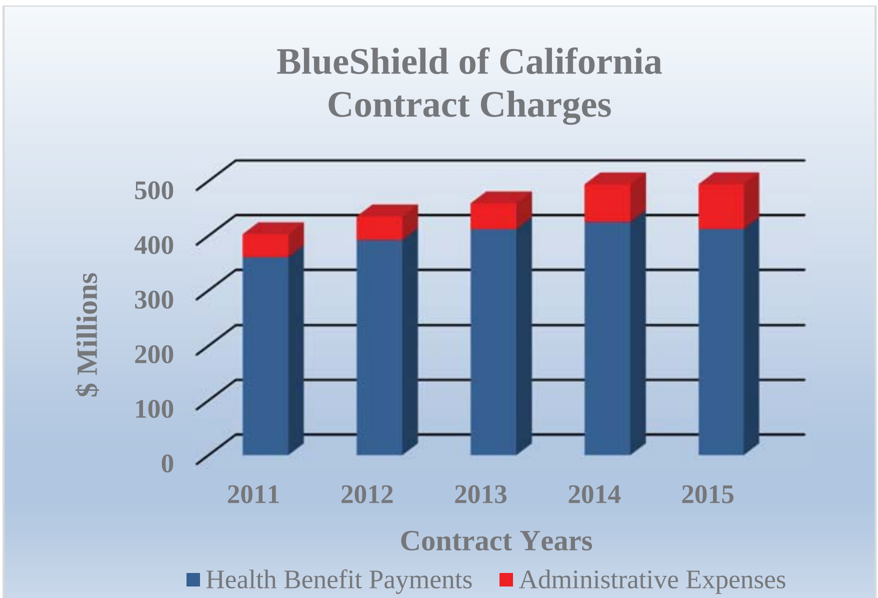
Fraud and Abuse Program

- 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 code 542 for contract years 2011 through 2015. During this period, the Plan paid approximately $2 billion in FEHBP health benefit payments and charged the FEHBP $283 million in administrative expenses.



Specifically, we reviewed miscellaneous health benefit payments and credits (e.g., cash and auto recoupment refunds, medical drug rebates, fraud recoveries, and special plan invoices) and 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.

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 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 miscellaneous health benefit payments and credits. For the period 2012 through September 30, 2016, we also judgmentally selected and reviewed the following FEP items:

Health Benefit Refunds

- A high dollar sample of 120 FEP health benefit refund cash receipts, totaling $8,481,627 (from a universe of 39,616 FEP refund receipt amounts, totaling $19,111,556). Our high dollar sample included the 20 highest judgmentally selected cash receipt amounts from the Plan's "Legacy" System for each year in the audit scope, and the 20 highest judgmentally selected cash receipt amounts from the Plan's "Facets" System for the period 2015 through September 30, 2016.

- A high dollar sample of 25 FEP health benefit refunds returned via auto recoupments, totaling $1,288,774 (from a universe of 553 FEP refunds returned via auto recoupments, totaling $5,404,884). Our high dollar sample included the five highest judgmentally selected auto recoupment amounts from each year in the audit scope.

Other Health Benefit Payments, Credits, and Recoveries

- Sixteen high dollar FEP medical drug rebate amounts, totaling $1,011,312, from a universe of 58 FEP medical drug rebate amounts, totaling $1,199,665. For this sample, we judgmentally selected all medical drug rebate amounts of $24,500 or more.

- Three high dollar special plan invoices (SPI), totaling $103,974 in FEP credits, from a universe of 35 SPI's, totaling $1,291,300 in net FEP credits. For this sample, we judgmentally selected three SPI's with credit amounts of $20,000 or more from the audit scope (but only for SPI pay codes related to miscellaneous health benefit payments and credits). SPI's are used by the Plan to process miscellaneous health benefit payment and credit transactions that do not involve primary claim payments or checks.

- Eight high dollar fraud recoveries, totaling $91,693, from a universe of 23 FEP recoveries, totaling $132,591. For this sample, we judgmentally selected the two highest recovery amounts from each year for 2013 through September 30, 2016. (There were no fraud recoveries provided by the Plan for 2012.)

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 2011 through 2015. Specifically, we reviewed administrative expenses relating to cost centers, natural accounts, pension, post-retirement, employee health benefits, gains and losses, return on investment, executive compensation limits, non-recurring projects, and Patient Protection and Affordable Care Act fees.[2] 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 September 30, 2016, as well as the Plan's dedicated FEP 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 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 $265,521,112 to the FEHBP from 424 cost centers that contained 251 natural accounts. From this universe, we selected a judgmental sample of 81 cost centers to review, which totaled $190,049,644 in expenses allocated to the FEHBP. We also selected a judgmental sample of 61 natural accounts to review, which totaled $239,613,234 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. Medical Drug Rebates $188,831

Our audit determined that the Plan had not returned four medical drug rebate amounts, totaling $180,723, to the FEHBP as of September 30, 2016. The Plan subsequently returned these rebates to the FEHBP in May 2017 and June 2017, more than four years late and after receiving our audit notification letter. Additionally, the Plan untimely returned 16 medical drug rebate amounts, totaling $1,011,312, to the FEHBP during the audit scope. As a result, we are questioning $188,831 for this audit finding, consisting of $180,723 for the questioned medical drug rebates and $8,108 for lost investment income (LII) on 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 1039, Part II, Section 2.3 (i) states, "All health benefit refunds and recoveries . . . must be deposited into the working capital or investment account within 30 days and returned to or accounted for in the FEHBP letter of credit account within 60 days after receipt by the Carrier."

FAR 52.232-17(a) states, "all amounts that become payable by the Contractor . . . shall bear simple interest from the date due . . . The interest rate shall be the interest rate established by the Secretary of the Treasury as provided in 41 U.S.C. 7109, which is applicable to the period in which the amount becomes due, as provided in paragraph (e) of this clause, and then at the rate applicable for each six-month period as fixed by the Secretary until the amount is paid."

Regarding reportable monetary findings, Contract CS 1039, Part III, section 3.16 (a), states, "Audit findings . . . in the scope of an OIG audit are reportable as questioned charges unless the Carrier provides documentation supporting that the findings were 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 medical drug rebates of $180,723 to the FEHBP more than four years late.

The Plan participates in medical drug rebate programs with various drug manufacturers. The drug rebates are determined based on medical claims for the applicable drugs, which are primarily administered in a physician's office. The Plan receives medical drug rebates multiple times a year (usually on a quarterly basis) and credits them to the participating groups, including the FEP. Prior to July 2013, the Plan allocated and returned medical drug rebates to the FEHBP right after receiving the individual rebates. Starting in July 2013, however, 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 medical drug rebates untimely to the FEHBP.

For the period 2012 through September 30, 2016, the Plan received 58 FEP medical drug rebate amounts, totaling $1,199,665, from various drug manufacturers. From this universe, we judgmentally selected and reviewed 16 medical drug rebate amounts, totaling $1,011,312, to determine if the Plan timely returned these drug rebate amounts to the FEHBP. Our sample included all FEP drug rebate amounts of $24,500 or more for the audit scope. Based on our review, we identified the following exceptions:

- The Plan had not returned four medical drug rebate amounts, totaling $180,723, to the FEHBP. The Plan subsequently returned these rebates to the FEHBP more than four years 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 $5,168 for LII on these medical drug rebates returned untimely to the FEHBP.

- The Plan returned 12 medical drug rebate amounts, totaling $830,652, untimely to the FEHBP during the audit scope. Specifically, we noted that the Plan deposited these rebate amounts into the FEP investment account from 19 to 285 days late, before returning these funds to the LOCA. As a result, we are questioning $2,940 for LII on these medical drug rebates returned untimely to the FEHBP.

In total, the Plan returned $188,831 to the FEHBP for these medical drug rebate exceptions, consisting of $180,723 for the questioned medical drug rebates and $8,108 for applicable LII on the rebates returned untimely to the FEHBP.

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $188,831 to the FEHBP on various dates in May 2017 through August 2017, consisting of $180,723 for the questioned medical drug rebates and $8,108 for applicable LII.

Recommendation 1

We recommend that the contracting officer require the Plan to return $180,723 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan returned $180,723 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

Recommendation 2

We recommend that the contracting officer require the Plan to return $8,108 to the FEHBP for the questioned LII on the medical drug rebates that were returned untimely to the FEHBP. However, since we verified that the Plan returned $8,108 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 3

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

2. Health Benefit Refunds and Fraud Recoveries $53,520

Our audit determined that the Plan had not returned five health benefit refunds, totaling $33,653, and one fraud recovery of $17,788 to the FEHBP as of September 30, 2016. The Plan subsequently returned these questioned amounts to the FEHBP in June 2017. As a result, we are questioning $53,520 for this audit finding, consisting of $51,441 for the questioned health benefit refunds and fraud recovery and $2,079 for LII on these funds returned untimely to the FEHBP.

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

Health Benefit Refunds – Cash Receipts

For the period 2012 through September 30, 2016, there were 39,616 FEP health benefit refund cash receipts totaling $19,111,556. From this universe, we selected and reviewed a judgmental sample of 120 high dollar cash receipt amounts, totaling $8,481,627, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our high dollar sample included the 20 highest cash receipt amounts from the Plan's "Legacy" System for each year in the audit scope, and the 20 highest cash receipt amounts from the Plan's "Facets" System for 2015 through September 30, 2016.

Our audit identified five unreturned health benefit refunds totaling $33,653, which the Plan returned, along with LII of $1,712, to the FEHBP.

Based on our review, we determined that the Plan had not returned five health benefit refunds, totaling $33,653, to the FEHBP. As a result of this finding, the Plan returned $35,365 to the FEHBP in June 2017 and July 2017, consisting of $33,653 for the questioned health benefit refunds and $1,712 for applicable LII. We reviewed and accepted the Plan's LII calculation.

Health Benefit Refunds – Auto Recoupments

For the period 2012 through September 30, 2016, there were 553 FEP health benefit refunds, totaling $5,404,884, that were returned to the FEHBP via auto recoupments. From this universe, we selected and reviewed a judgmental sample of 25 high dollar auto recoupments, totaling $1,288,774, for the purpose of determining if the Plan timely returned these refunds to the FEHBP. Our high dollar sample included the five highest auto recoupment amounts from each year in the audit scope. Based on our review, we determined that the Plan properly returned these refunds to the FEHBP via the Plan's auto recoupment process.

Fraud Recoveries

From 2013 through September 30, 2016, there were 23 FEP fraud recoveries totaling $132,591. From this universe, we selected and reviewed a judgmental sample of eight fraud recoveries, totaling $91,693, to determine if the Plan timely returned these recoveries to the FEHBP. Our sample included the two highest recovery amounts from each year for 2013 through September 30, 2016. There were no fraud recoveries provided by the Plan for 2012.

Based on our review, we determined that the Plan had not returned one fraud recovery amount of $17,788 to the FEHBP. Because of this finding, the Plan returned $18,155 to the FEHBP in June 2017, consisting of $17,788 for the questioned fraud recovery and $367 for applicable LII. 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 $53,520 to the FEHBP on multiple dates in June 2017 and July 2017, consisting of $51,441 for the questioned health benefit refunds and fraud recovery and $2,079 for applicable LII.

Recommendation 4

We recommend that the contracting officer require the Plan to return $51,441 to the FEHBP for the questioned health benefit refunds and fraud recovery. However, since we verified that the Plan returned $51,441 to the FEHBP for the questioned refunds and fraud recovery, no further action is required for this amount.

Recommendation 5

We recommend that the contracting officer require the Plan to return $2,079 to the FEHBP for LII on the questioned health benefit refunds and fraud recovery. However, since we verified that the Plan returned $2,079 to the FEHBP for the questioned LII, no further action is required for this LII amount.

B. ADMINISTRATIVE EXPENSES

1. Non-Recurring Costs - Shield Advance Project $3,795,033

The Plan allocated and charged unreasonable amounts of non-recurring costs to the FEHBP for the Shield Advance project in 2014 and 2015. This Shield Advance project was for an extensive, multi-year implementation of the Plan's Facets Claims System. Specifically, the Plan overcharged the FEHBP $2,961,152 in 2014 and $599,834 in 2015 for this non-recurring cost project. As a result of this finding, the Plan returned $3,795,033 to the FEHBP, consisting of $3,560,986 for the questioned unreasonable Shield Advance project costs and $234,047 for applicable LII.

Contract CS 1039, Part III, section 3.2 (b)(1) states, "The Carrier may charge a cost to the contract for a contract term if the cost is actual, allowable, allocable, and reasonable."

48 CFR 31.201-3 states, "(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. . . . No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.

(b) What is reasonable depends upon a variety of considerations and circumstances, including -

(1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;
(2) Generally accepted sound business practices, arm's length bargaining, and Federal and State laws and regulations;
(3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
(4) Any significant deviations from the contractor's established practices."

48 CFR 31.203 (c) states, "The contractor shall accumulate indirect costs by logical cost groupings with due consideration of the reasons for incurring such costs. The contractor shall determine each grouping so as to permit use of an allocation base that is common to all cost objectives to which the grouping is to be allocated."

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 2011 through 2015, the Plan charged the FEHBP for 21 non-recurring costs, totaling $51,897,299. From this universe, we selected and reviewed a judgmental sample of five high dollar non-recurring costs, totaling $12,511,365, to determine if these costs charged to the FEHBP were actual, allowable, allocable, and reasonable. Our initial sample selection only included Shield Advance project costs charged to the FEHBP in 2014. However, due to the significant amount of costs charged to the FEHBP for this project, we expanded our review of the Shield Advance costs to cover all years in our audit scope. Based on our review, we determined that the Plan properly charged non-recurring costs to the FEHBP, except for the Shield Advance project costs that were charged to the FEHBP in 2014 and 2015.

In 2011, the Plan charged the FEHBP $3,207,147 for general work related to the Shield Advance project. We determined that the Plan reasonably allocated these costs to the FEP via a corporate membership allocation driver, which resulted in a 7.75 percent allocation to FEP. The remaining Shield Advance project costs for the audit scope were mostly related to migrating members from the Plan's Legacy Claims System platform to the Plan's new Facets Claims System platform. The migration of FEP members started in 2014 and concluded in 2015. As such, the Plan did not allocate Shield Advance project costs to the FEP in 2012 and 2013, which is appropriate. However, the Plan charged the FEHBP $8,217,573 in 2014 and $5,641,261 in 2015 for the migration of FEP members to the Plan's Facets Claims System. Based on our review of these costs charged to the FEHBP, we determined that the Plan allocated unreasonable amounts of these costs to the FEP.

Specifically, we determined that the Plan changed the allocation driver from corporate membership (used in 2011) to "detailed functional requirements" (DFUNC) in 2014 and 2015.[3] By changing the allocation method from corporate membership to DFUNC, FEP's percentage of the project costs increased from a reasonable 7.75 percent in 2011 to an unreasonable 19.52 percent in 2014 and an unreasonable 15.86 percent in 2015. The Plan did not provide adequate documentation to support this significant increase or the reasonableness of the DFUNC allocation method.

[3] DFUNCs are the lowest detail level of functional requirements that are trackable. DFUNCs consist of business requirements that are combined together to form the functional requirements of a configuration solution. DFUNCs cross multiple lines of business and customer needs, but taken together as a single functional unit, can represent the building blocks of a software configuration solution.

We noted the following during our review:

- The Plan originally ran the 2014 and 2015 Shield Advance project costs through the allocation system using the corporate membership allocation driver. Subsequently, the Plan backed out all cost centers related to the Shield Advance project and then reallocated these costs to the FEP using the DFUNC allocation method, charging the FEHBP through an out-of-system adjustment.

- The reliability of the Plan's support is questionable. The employee that created this DFUNC allocation method no longer works at the Plan. In addition, the Plan recreated the 2014 allocation data because the original documentation was not maintained.

- The Plan maintains that all DFUNCs are equal. However, the Plan could not support the dollar value or time associated with the implementation of a DFUNC. Therefore, it is impossible to determine FEP's actual impact using the DFUNC method. In addition, the potential inequality of DFUNCs could cause an unreasonable allocation to the FEP. For example, the more DFUNCs a line of business has then the more costs that line of business is allocated, even if the DFUNCS took less time to implement than DFUNCs for another line of business.

- The Plan used an inconsistent approach to allocate Shield Advance project costs to the lines of business. The Plan allocated Shield Advanced project costs to all other lines of business, including the Plan's FEHBP experience-rated Health Maintenance Organization (HMO) product, using the corporate membership allocation driver. According to the Plan, the DFUNC method was not used for the experience-rated HMO product because the Plan exceeded the administrative cost limitations for this product in 2014 and 2015. Therefore, OPM would not have approved additional reimbursements if the Plan had changed the allocation driver from membership to the DFUNC method. As previously cited from 48 CFR 31.203(c), the use of an allocation base should be common to all cost objectives.

- The FEP's allocation percentages of all corporate administrative costs in 2014 and 2015 were 7.15 and 7.69, respectively. On this basis alone, allocating a companywide cost, such as the Shield Advance project, to the FEP at 19.52 percent in 2014 and 15.86 percent in 2015 would be considered unreasonable.

The Plan overcharged the FEHBP $3,560,986 for Shield Advance project costs in 2014 and 2015.

Based on the above assertions, we are questioning the reasonableness, consistency, and reliability of the Plan's DFUNC allocation method. The Plan did not use this method consistently and the method did not produce a reasonable allocation to the FEP, resulting in overcharges to the FEHBP. We believe that a more reasonable, consistent, supportable, and reliable allocation method would have been to use the Plan's migrated membership allocation driver or a time reporting method, if available at the time these costs were incurred.

For determining FEP's reasonable percentage of the Shield Advance project costs, we calculated FEP's percentage of migrated membership in 2014 and 2015. As previously mentioned, the Shield Advance costs in 2014 and 2015 represent the cost to migrate members to the Plan's new Facets Claims System. We determined that, of the Plan's total members that were migrated during these years, FEP members represented 12.49 percent in 2014 and 14.17 percent in 2015. Using these percentages as the basis for our allocation of Shield Advance project costs to the FEP, we determined that FEP should only have been allocated $5,256,421 in 2014 and $5,041,427 in 2015, resulting in overcharges to the FEHBP of $2,961,152 in 2014 and $599,834 in 2015. Because of this finding, the Plan returned $3,795,033 to the FEHBP, consisting of $3,560,986 for the questioned unreasonable Shield Advance project costs and $234,047 for applicable LII (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 $3,795,033 to the FEHBP in January 2018, consisting of $3,560,986 for the questioned unreasonable Shield Advance project costs and $234,047 for applicable LII.

Recommendation 6

We recommend that the contracting officer disallow 3,560,986 for the questioned unreasonable Shield Advance project costs charged to the FEHBP in 2014 and 2015. However, since we verified that the Plan returned $3,560,986 to the FEHBP for these unreasonable costs, no further action is required for this amount.

Recommendation 7

We recommend that the contracting officer require the Plan to return $234,047 to the FEHBP for LII on the unreasonable Shield Advance project costs. However, since we verified that the Plan returned $234,047 to the FEHBP for the questioned LII, no further action is required for this amount.

2. Unallowable Public Relations Expenses **$1,590,095**

The Plan charged unallowable public relations expenses of $1,473,042 to the FEHBP from 2011 through 2015. As a result of this finding, the Plan returned $1,590,095 to the FEHBP, consisting of $1,473,042 for these questioned expenses and $117,053 for applicable LII.

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

48 CFR 31.205-1(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 $265,521,112 (before adjustments) to the FEHBP from 424 cost centers. From this universe, we selected a judgmental sample of 81 cost centers to review, which totaled $190,049,644 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.

The Plan charged the FEHBP $1,473,042 for unallowable public relations expenses.

Based on our review, we determined that the Plan charged unallowable cost center expenses to the FEHBP from 2011 through 2015. Specifically, the Plan charged the FEHBP $1,473,042 in unallowable public relations expenses from cost center "6610H" (Creative Services).

In total, the Plan returned $1,590,095 to the FEHBP for this audit finding, consisting of $1,473,042 for unallowable public relations expenses that were charged to the FEHBP from 2011 through 2015 and $117,053 for applicable LII (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 $1,590,095 to the FEHBP on various dates in September 2017 and October 2017, consisting of $1,473,042 for the questioned unallowable public relations expenses and $117,053 for applicable LII.

Recommendation 8

We recommend that the contracting officer disallow $1,473,042 for the questioned unallowable public relations expenses charged to the FEHBP from 2011 through 2015. However, since we verified that the Plan returned $1,473,042 to the FEHBP for these questioned expenses, no further action is required for this amount.

Recommendation 9

We recommend that the contracting officer require the Plan to return $117,053 to the FEHBP for LII on the unallowable public relations expenses. However, since we verified that the Plan returned $117,053 to the FEHBP for the questioned LII, no further action is required for this LII amount.

3. Cost Center True-up Adjustments $302,410

The Plan had not completely credited the FEHBP for true-up adjustments related to cost center "2105H" (Global Variances - Corporate) in 2011 and 2012, resulting in overcharges of $285,876 to the FEHBP. Specifically, the Plan overcharged the FEHBP $23,113 in 2011 and $262,763 in 2012 for these cost center expenses. As a result of this finding, the Plan returned $181,418 to the FEHBP, consisting of $164,884 of these cost center overcharges and $16,534 for applicable LII. Since the Plan did not receive reimbursement for all of the FEP administrative expenses incurred in 2012, the Plan does not have to return the remaining questioned amount of $120,992 to the FEHBP.

As previously cited from 48 CFR 31.201-5, the applicable portion of any income, rebate, allowance, or other credit should be credited to the FEHBP as a cost reduction or by cash refund.

As previously cited from Contract CS 1039, 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.

During our reconciliation of the Plan's cost accounting reports to the Plan's FEP cost submissions and BCBS Annual Accounting Statements for contract years 2011 through 2015, we identified that the Plan had not reduced the FEP charges for cost center "2105H" (Global Variances - Corporate) to the actual FEP expenses incurred for 2011 and 2012. The following schedule is a summary of what we identified related to the cost center "2105H" that was not properly charged to the FEHBP.

Cost Center "2105H" (Global Variances - Corporate)

Year	System Allocation to FEP	Actual FEP Costs Incurred	True-up Amounts (Differences)	FEP Credits Applied	Remaining Credits to be Applied (FEP Overcharges)
2011	$2,649,739	$2,405,062	$244,677	($221,564)	$23,113
2012	4,155,898	3,893,135	262,763	0	262,763
Total	**$6,805,637**	**$6,298,197**	**$507,440**	**($221,564)**	**$285,876**

Based on our review, we determined that the Plan should have credited the FEP $244,677 in 2011 and $262,763 in 2012 to reduce the FEP expenses to actual amounts. However, the Plan applied only a partial credit of $221,564 in 2011 and no credit in 2012. Because of this finding, the Plan returned $181,418 to the FEHBP via LOCA drawdown adjustment in September 2017, consisting of $164,884 for cost center overcharges and $16,534 for applicable LII (as calculated by the OIG). We determined that the Plan does not have to return remaining questioned overcharge amount of $120,992 to the FEHBP via LOCA drawdown adjustment, since the Plan did not receive reimbursement for all of the FEP administrative expenses incurred in 2012.

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan had a total of $120,992 in unreimbursed allowable costs in 2012, of which we verified that the proper accounting adjustments were made by the Plan to reduce the filed costs. Since there is no impact on the amount charged to the FEHBP, no LII calculation is necessary for this part of the audit finding. In addition, we verified that the Plan returned the remaining $181,418 to the FEHBP in September 2017, consisting of $164,884 for the applicable cost center overcharges and $16,534 for applicable LII.

Recommendation 10

We recommend that the contracting officer disallow $285,876 for the questioned cost center overcharges in 2011 and 2012. However, since we verified that the Plan returned $181,418 to the FEHBP and submitted prior period adjustments of $262,763 to reduce the 2012 filed costs, no further actions are required for these amounts.

Recommendation 11

We recommend that the contracting officer require the Plan to return $16,534 to the FEHBP for LII on the questioned cost center overcharges. However, since we verified that the Plan returned $16,534 in questioned LII to the FEHBP, no further action is required for this LII amount.

4. Cost Settlement Adjustment for Quality Improvement Costs $23,480

Our audit determined that the Plan had not made a cost settlement adjustment to credit the FEHBP for 2014 quality improvement cost overcharges. As a result of this finding, the Plan returned $23,480 to the FEHBP, consisting of $22,182 for quality improvement cost overcharges and $1,298 for applicable LII.

As previously cited from Contract CS 1039, 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.

For contract years 2013 through 2015, the FEP Director's Office (FEPDO) approved a monthly expense allowance for budgeted quality improvement costs, resulting in charges of $12,585,024 to the FEHBP ($2,501,066 in 2013, $3,174,947 in 2014, and $6,909,011 in 2015). Following each contract year, the Plan and FEPDO 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 made the necessary adjustments to credit or charge the FEHBP for the cost settlement differences.

The Plan overcharged the FEHBP $22,182 for quality improvement costs in 2014.

Based on our review, we determined that the Plan correctly made the cost settlement adjustments for 2013 and 2015. However, the Plan had not made the applicable adjustment to credit the FEHBP $22,182 for the 2014 quality improvement cost settlement. As a result, the Plan returned $23,480 to the FEHBP for this audit finding, consisting of $22,182 for quality improvement costs that were overcharged to the FEHBP in 2014 and $1,298 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 $23,480 to the FEHBP in July 2017 for this audit finding, consisting of $22,182 for quality improvement cost overcharges and $1,298 for applicable LII.

Recommendation 12

We recommend that the contracting officer disallow $22,182 for quality improvement costs that were overcharged to the FEHBP in 2014. However, since we verified that the Plan returned $22,182 to the FEHBP for these questioned quality improvement costs, no further action is required for this amount.

Recommendation 13

We recommend that the contracting officer require the Plan to return $1,298 to the FEHBP for LII on the questioned quality improvement costs. However, since we verified that the Plan returned $1,298 to the FEHBP for the questioned LII, no further action is required for this LII amount.

5. Post-Retirement Benefit Costs **$12,033**

Our audit determined that the Plan overcharged the FEHBP for post-retirement benefit (PRB) costs in 2011, 2014, and 2015. As a result of this finding, the Plan returned $12,033 to the FEHBP, consisting of $11,349 for the questioned PRB costs and $684 for applicable LII.

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

48 CFR 31.205-6(o) states, "(1) PRB covers all benefits, other than cash benefits and life insurance benefits paid by pension plans, provided to employees, their beneficiaries, and covered dependents during the period following the employees' retirement. Benefits encompassed include, but are not limited to, postretirement health care; life insurance provided outside a pension plan; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. (2) To be allowable, PRB costs shall be incurred pursuant to law, employer-employee agreement, or an established policy of the contractor, and shall comply with paragraphs (o)(2)(i), (ii), or (iii) of this subsection."

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.

Using the cash (or pay-as-you-go) method, the Plan charged $310,363 to the FEHBP for PRB costs from 2011 through 2015. We reviewed the Plan's calculations of PRB costs charged to the FEHBP and determined if these costs were calculated in accordance with the contract and applicable regulations.

The Plan overcharged the FEHBP $11,349 for PRB costs.

Based on our review, we determined that the Plan overcharged the FEHBP by $1,519 in 2011, $7,337 in 2014, and $2,493 in 2015 for PRB costs. Specifically, the Plan did not reduce actual PRB costs by the amount of drug subsidy reimbursements in 2011 and 2014 and retiree contributions in 2015, prior to allocating the PRB costs to the FEHBP. Because of this finding, the Plan returned $12,033 to the FEHBP, consisting of $11,349 for these questioned PRB cost overcharges and $684 for applicable LII (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 $12,033 to the FEHBP on multiple dates in May 2017 and August 2017 for this audit finding, consisting of $11,349 for the questioned PRB costs and $684 for applicable LII.

Recommendation 14

We recommend that the contracting officer disallow $11,349 for the questioned PRB costs that were overcharged to the FEHBP in 2011, 2014, and 2015. However, since we verified that the Plan returned $11,349 to the FEHBP for these questioned PRB costs, no further action is required for this amount.

Recommendation 15

We recommend that the contracting officer require the Plan to return $684 to the FEHBP for LII on the questioned PRB costs. However, since we verified that the Plan returned $684 to the FEHBP for the questioned LII, no further action is required for this LII amount.

C. CASH MANAGEMENT

1. Excess Working Capital Deposit $2,086,599

As of September 30, 2016, the Plan held a working capital deposit of $2,086,599 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 working capital 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 working capital 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 BCBS plans), 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 working capital deposit is not adequate (either over or underfunded), the Plan should make an appropriate adjustment.

We noted that the Plan reviewed the working capital deposit on a regular basis (usually quarterly) from 2012 through September 2016 and made several adjustments to the working capital deposit during the audit scope. When reviewing the Plan's working capital calculations, we determined that the Plan inappropriately included EFTs in the calculations. As of September 30, 2016, the Plan held a working capital deposit amount of $5,362,000 in the dedicated FEP investment account.

The Plan held an excess working capital deposit of $2,086,599 in the dedicated FEP investment account as of September 30, 2016.

To determine if the Plan maintained an appropriate working capital deposit amount, we recalculated what the Plan's working capital deposit should be and determined that, as of September 30, 2016, the Plan should have only maintained a working capital deposit of $3,275,401. Our calculation excluded EFTs. Therefore, we determined that, as of September 30, 2016, the Plan held a working capital deposit with $2,086,599 ($5,362,000 minus $3,275,401) over the amount actually needed to meet the Plan's daily cash needs for FEHBP claim payments. Since the Plan maintained these excess working capital funds in the dedicated FEP investment account, LII is not applicable for this finding.

Association Response:

The Association agrees with this finding.

OIG Comment:

As part of our review, we verified that the Plan returned $2,086,599 to the FEHBP in January 2018 for the excess working capital deposit.

Recommendation 16

We recommend that the contracting officer require the Plan to return $2,086,599 to the FEHBP for the excess working capital deposit. However, since we verified that the Plan returned $2,086,599 to the FEHBP for the excess working capital deposit, no further action is required for this questioned amount.

Recommendation 17

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 18

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. Federal Employee Program Investment Account **$7,421**

Our audit determined that the Plan did not maintain all FEHBP funds in the dedicated FEP investment account. As a result of this finding, the Plan returned $7,421 to the FEHBP, consisting of $7,264 for FEHBP funds not maintained in the FEP investment account and $157 for applicable LII.

Contract CS 1039, Part III, Section 3.5 (a) states, "The Carrier and/or its underwriter shall keep all FEHBP funds for this contract (cash and investments) physically separate from funds obtained from other sources. Accounting for such FEHBP funds shall not be based on allocations or other sharing mechanisms and shall agree with the Carrier's accounting records." 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 Plan did not maintain FEHBP funds of $7,264 in the dedicated FEP investment account as of September 30, 2016.

In our Audit Information Request (dated October 3, 2016), we requested that the Plan provide a detailed analysis of the FEHBP funds maintained in the dedicated FEP investment account as of September 30, 2016 (e.g., working capital deposit, approved letter of credit account drawdowns, health benefit refunds and recoveries, medical drug rebates, interest income, and excess funds). Based on our review of the Plan's analysis, we determined that the Plan could not support why the FEP investment account was short by $7,264. Specifically, the Plan should have held a balance of $2,760,031 in the dedicated FEP investment account as of September 30, 2016; however, the Plan's actual account balance totaled $2,752,767. The Plan researched this difference but could not identify the transaction(s) causing the shortage of funds in the FEP investment account or explain where these funds were being held. Because of this finding, the Plan returned $7,421 to the FEHBP, consisting of $7,264 for FEHBP funds not maintained in the FEP investment account and $157 for applicable LII. 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 $7,421 to the FEHBP in June 2017 for this audit finding, consisting of $7,264 for FEHBP funds not maintained in the FEP investment account and $157 for applicable LII.

Recommendation 19

We recommend that the contracting officer require the Plan to return $7,264 to the FEHBP for funds not maintained in the FEP investment account. However, since we verified that the Plan returned $7,264 to the FEHBP for funds not maintained in the FEP investment account, no further action is required for this amount.

Recommendation 20

We recommend that the contracting officer require the Plan to return $157 to the FEHBP for LII on funds not maintained in the FEP investment account. However, since we verified that the Plan returned $157 to the FEHBP for the questioned LII, no further action is required for this LII amount.

D. FRAUD AND ABUSE PROGRAM

The Plan timely entered fraud and abuse cases into the Association's Fraud Information Management System.

The audit disclosed no significant findings pertaining to the Plan's Fraud and Abuse Program activities and practices. For the period 2015 through September 30, 2016, the Plan timely entered fraud and abuse cases into the Association's Fraud Information Management System (FIMS).[4] Overall, we determined that the Plan complied with the communication and reporting requirements for fraud and abuse cases that are set forth in the FEHBP Carrier Letter 2014-29.

[4] FIMS is a multi-user, web-based FEP case-tracking database that the Association's FEP Special Investigations Unit developed in-house. FIMS is used by the local BCBS plans and the Association's FEP Special Investigations Unit to track and report potential fraud and abuse activities.

IV. SCHEDULE A – QUESTIONED CHARGES

BLUESHIELD OF CALIFORNIA
SAN FRANCISCO, CALIFORNIA

QUESTIONED CHARGES

AUDIT FINDINGS	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
A. MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS									
1. Medical Drug Rebates*	$0	($49)	$140	$57,220	$2,223	$127,661	$1,636	$0	$188,831
2. Health Benefit Refunds and Fraud Recoveries*	0	0	15,250	312	340	36,996	622	0	53,520
TOTAL MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS	$0	($49)	$15,390	$57,533	$2,563	$164,657	$2,258	$0	$242,351
B. ADMINISTRATIVE EXPENSES									
1. Non-Recurring Costs - Shield Advance Project*	$0	$0	$0	$2,961,152	$666,491	$78,049	$86,780	$2,561	$3,795,033
2. Unallowable Public Relations Expenses*	226,768	266,337	435,800	304,162	297,854	32,286	26,888	0	1,590,095
3. Cost Center True-up Adjustments*	23,113	263,197	2,579	3,400	3,712	3,614	2,795	0	302,410
4. Cost Settlement Adjustment for Quality Improvement Costs*	0	0	0	22,182	499	486	313	0	23,480
5. Post-Retirement Benefit Costs*	1,519	29	24	7,368	2,692	249	152	0	12,033
TOTAL ADMINISTRATIVE EXPENSES	$251,400	$529,564	$438,403	$3,298,264	$971,248	$114,684	$116,928	$2,561	$5,723,051
C. CASH MANAGEMENT									
1. Excess Working Capital Deposit	$0	$0	$0	$0	$0	$2,086,599	$0	$0	$2,086,599
2. Federal Employee Program Investment Account*	0	0	0	0	0	7,332	89	0	7,421
TOTAL CASH MANAGEMENT	$0	$0	$0	$0	$0	$2,093,931	$89	$0	$2,094,020
D. FRAUD AND ABUSE PROGRAM									
TOTAL FRAUD AND ABUSE PROGRAM	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL QUESTIONED CHARGES	$251,400	$529,515	$453,793	$3,355,796	$973,810	$2,373,272	$119,275	$2,561	$8,059,422

* We included lost investment income (LII) within audit findings A1 ($8,108), A2 ($2,079), B1 ($234,047), B2 ($117,053), B3 ($16,534), B4 ($1,298), B5 ($684), and C2 ($157); therefore, no additional LII is applicable.

BlueCross BlueShield Association

Federal Employee Program
1310 G Street, N.W.
Washington, D.C. 20005
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APPENDIX

January 26, 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 Shield California Plan
Audit Report Number: 1A-10-67-17-021

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 Shield California Plan. Our comments concerning the findings in the report are as follows:

A. <u>MISCELLANEOUS HEALTH BENEFIT PAYMENTS AND CREDITS</u>

1. Medical Drug Rebates **188,831**

<u>Recommendation</u>

We recommend that the contracting officer require the Plan to return $180,723 to the FEHBP for the questioned medical drug rebates. However, since we verified that the Plan returned $180,723 to the FEHBP for these questioned medical drug rebates, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

<u>Recommendation</u>

We recommend that the contracting officer require the Plan to return $8,108 to the FEHBP for LII on the questioned medical drug rebates. However, since we verified that the Plan returned $8,108 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

2. Health Benefit Refunds and Fraud Recoveries $53,520

Recommendation

We recommend that the contracting officer require the Plan to return $51,441 to the FEHBP for the questioned health benefit refunds and fraud recovery. However, since we verified that the Plan returned $51,441 to the FEHBP for these questioned health benefit refunds and fraud recovery, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

Recommendation

We recommend that the contracting officer require the Plan to return $2,079 to the FEHBP for LII on the questioned health benefit refunds and fraud recovery. However, since we verified that the Plan returned $2,079 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

B. ADMINISTRATIVE EXPENSES

1. Non-Recurring Costs / Shield Advance Project $3,560,986

Recommendation

We recommend that the contracting officer disallow 3,560,986 for the questioned unreasonable Shield Advance project costs charged to the FEHBP in 2014 and 2015.

Plan Response

The Plan has agreed with this recommendation and returned the principle amount of $3,560,986 on January 16, 2018. Reference **Attachment A**.

Recommendation

We recommend that the contracting officer require the Plan to return applicable LII to the FEHBP for unreasonable Shield Advance project costs charged to the FEHBP in 2014 and 2015.

Plan Response

The Plan has agreed with this recommendation and calculated Lost Investment Income in the amount of $69,314.25 and returned the funds to the Program on January 16, 2018. Reference **Attachment A**.

2. Unallowable and/or Unallocable Expenses $1,590,095

Recommendation

We recommend that the contracting officer disallow $1,473,042 for the questioned unallowable cost center expenses charged to the FEHBP from 2011 through 2015. However, since we verified that the Plan returned $1,473,042 to the FEHBP for these expenses, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

Recommendation

We recommend that the contracting officer require the Plan to return $117,053 to the FEHBP for LII on the unallowable cost center expenses. However, since we verified that the Plan returned $117,053 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

3. Cost Center True-up Adjustments $302,410

Recommendation

We recommend that the contracting officer disallow $285,876 for the questioned cost center overcharges in 2011 and 2012. However, since we verified that the Plan returned $181,418 to the FEHBP for the questioned cost center overcharges, the contracting officer only needs to ensure that the Plan submit prior period adjustments of $262,763 to properly reduce filed administrative expenses for contract year 2012.

Plan Response

The Plan agreed with this recommendation and filed the appropriate Prior Period Adjustment forms on September 6, 2017 to reduce filed administrative expenses for contract year 2012. Reference **Attachment B.**

Recommendation

We recommend that the contracting officer require the Plan to return $16,534 to the FEHBP for LII on the questioned cost center overcharges. However, since we verified that the Plan returned $16,534 in questioned LII to the FEHBP, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

4. Cost Center Adjustment for Quality Improvement Costs $23,480

Recommendation

We recommend that the contracting officer disallow $22,182 for quality improvement costs that were overcharged to the FEHBP in 2014. However, since we verified that the Plan returned $22,182 to the FEHBP for the questioned quality improvement costs, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

Recommendation

We recommend that the contracting officer require the Plan to return $1,298 to the FEHBP for LII on the questioned quality improvement costs. However, since we verified that the Plan returned $1,298 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

5. Post-Retirement Benefit Costs $12,033

Recommendation

We recommend that the contracting officer disallow $11,349 for the questioned PRB costs that were overcharged to the FEHBP in 2011, 2014, and 2015. However, since we verified that the Plan returned $11,349 to the FEHBP for these questioned PRB costs, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

Recommendation

We recommend that the contracting officer require the Plan to return $684 to the FEHBP for LII on the questioned PRB costs. However, since we verified that the Plan returned $684 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

C. CASH MANAGEMENT

1. Excess Working Capital Deposit $2,086,599

Recommendation

We recommend that the contracting officer require the Plan to return $2,086,599 to the FEHBP for the excess WC deposit.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program on January 10, 2018. Reference **Attachment C**.

2. Federal Employee Program Investment Account $7,421

Recommendation

We recommend that the contracting officer require the Plan to return $7,264 to the FEHBP for funds not maintained in the FEP investment account. However, since we verified that the Plan returned $7,264 to the FEHBP for funds not maintained in the FEP investment account, no further action is required for this amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

Recommendation

We recommend that the contracting officer require the Plan to return $157 to the FEHBP for LII on funds not maintained in the FEP investment account. However, since we verified that the Plan returned $157 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Plan Response

The Plan agreed with this recommendation and returned the funds to the FEP Program. As stated in the Draft Report dated November 17, 2017, no further action is required.

D. <u>FRAUD AND ABUSE PROGRAM</u>

Deleted by the Office of the Inspector General – Not Relevant to the Final Report

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]

Executive Director, FEP Program Assurance

cc: [redacted], Blue Shield of California

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