



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

Final Audit Report

**AUDIT OF
CASH MANAGEMENT ACTIVITIES FOR A
SAMPLE OF BLUECROSS AND/OR BLUESHIELD
PLANS**

Report Number 1A-99-00-17-001

March 14, 2018

EXECUTIVE SUMMARY

Audit of Cash Management Activities for a Sample of BlueCross and/or BlueShield Plans

Report No. 1A-99-00-17-001

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Why did we conduct the audit?

We conducted this limited scope audit to obtain reasonable assurance that the BlueCross and/or BlueShield (BCBS) Plans are complying with the provisions of the Federal Employees Health Benefits Act and regulations pertaining to cash management that are included in the Federal Employees Health Benefits Program (FEHBP) contract. The objective of our audit was to determine if the 20 BCBS plans in our sample handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP.

What did we audit?

Our audit covered cash management activities and practices related to FEHBP funds from 2015 through June 30, 2016, for a sample of 20 BCBS plans. During our audit fieldwork phase, we also expanded the scope for Independence BlueCross (BC) to include July 2016 through March 2017 for specific types of letter of credit account (LOCA) drawdown errors; BCBS of Wyoming to include July 2016 through February 2017 for the plan's working capital deposit; and Wellmark BCBS to include July 2016 for LOCA drawdowns.



Michael R. Esser
*Assistant Inspector General
for Audits*

What did we find?

We questioned \$6,315,970 in cash management activities and lost investment income (LII) for seven BCBS plans. The BlueCross BlueShield Association and applicable BCBS plans agreed with our audit findings and these plans returned all of the questioned amounts to the FEHBP.

Our audit results are summarized as follows:

- Excess Working Capital Deposits – We determined that Independence BC and BCBS of Wyoming held excess working capital deposits of \$3,242,641 in the plans' dedicated Federal Employee Program investment accounts (\$1,877,171 by Independence BC and \$1,365,470 by BCBS of Wyoming).
- LOCA Overdraws (Drawdown Errors) – We questioned \$2,139,136 for LOCA overdraws by Independence BC and \$3,814 for applicable LII on these overdraws.
- Health Benefit Refunds – Our audit determined that Wellmark BCBS and BCBS of Vermont had not returned health benefit refunds, totaling \$904,606, to the FEHBP as of June 30, 2016 (\$888,977 by Wellmark BCBS and \$15,629 by BCBS of Vermont). We also questioned \$8,275 for LII on these refunds held by Wellmark BCBS and returned untimely to the FEHBP.
- Excess Funds in the Investment Accounts – Our audit determined that Excellus BCBS and BCBS of South Carolina held excess funds of \$4,493 and \$3,713, respectively, in the plans' dedicated Federal Employee Program investment accounts.
- Treasury Offsets – For BCBS of Michigan, we questioned \$5,863 for a United States Treasury offset against the LOCA and \$873 for LII on offsets returned untimely to the FEHBP.
- Unreturned Interest Income – BCBS of Vermont had not returned interest income of \$2,556 to the FEHBP as of June 30, 2016.

ABBREVIATIONS

Association	BlueCross BlueShield Association
BC	BlueCross
BCBS	BlueCross BlueShield <u>or</u> BlueCross and/or BlueShield
CFR	Code of Federal Regulations
Contract	Contract CS 1039
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
Guidelines	Letter of Credit System Guidelines
LII	Lost Investment Income
LOCA	Letter of Credit Account
OIG	Office of the Inspector General
OPM	U.S. Office of Personnel Management
Treasury	United States Treasury

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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 a sample of 20 BlueCross and/or BlueShield (BCBS) plans, pertaining to these plans' cash management activities and practices related to FEHBP funds.

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

The Association has established a Federal Employee Program (FEP) 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 BlueCross BlueShield, 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 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 management for the Association and each BCBS plan. In addition, working in partnership with the Association, management of each BCBS plan is responsible for establishing and maintaining a system of internal controls.

All findings from our previous audit of cash management activities for a sample of BCBS plans (Report No. 1A-99-00-13-018, dated January 17, 2014), covering 2011 through September 30, 2012, have been satisfactorily resolved.

The results of this audit were discussed with the Association and applicable BCBS plan officials throughout the audit and at an exit conference on June 21, 2017; and were presented in detail in a draft report, dated October 13, 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. Also, additional documentation provided by the Association and/or BCBS plans on various dates through January 19, 2018, was considered in preparing our final report.

II. OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the 20 BCBS plans in our sample handled FEHBP funds in accordance with Contract CS 1039 (contract) and the applicable laws and regulations concerning cash management in the FEHBP.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The audit covered cash management activities and practices from 2015 through June 30, 2016, for a sample of 20 BCBS plans. Our sample included Premera BlueCross (BC) and most of the BCBS plans with FEHBP health benefit payments of \$400 million or less in contract year 2015 (except for BCBS of Rhode Island and several BCBS plans that are a part of multi-plan companies, such as Anthem Inc. and Regence).¹

Specifically, we reviewed the plans' letter of credit account (LOCA) drawdowns, working capital calculations, adjustments and/or balances, United States Treasury (Treasury) offsets, and interest income transactions from 2015 through June 30, 2016, as well as the plans' dedicated FEP investment account transactions during the audit scope and balances as of June 30, 2016. As stated above, our objective was to determine if the 20 BCBS plans in our sample handled FEHBP funds in accordance with the contract and applicable laws and regulations concerning cash management in the FEHBP. During our audit fieldwork phase, we also expanded the scope for Independence BC to include July 2016 through March 2017 for specific types of LOCA drawdown errors; BCBS of Wyoming to include July 2016 through February 2017 for the plan's working capital deposit; and Wellmark BCBS to include July 2016 for LOCA drawdowns.

¹ Our sample consisted of the following BCBS plans: BCBS of Arkansas, BCBS of Hawaii, BCBS of Idaho, Wellmark BCBS (Iowa and South Dakota), BCBS of Kansas, BCBS of Louisiana, BCBS of Michigan, BCBS of Mississippi, BCBS of Kansas City (Missouri), BCBS of Nebraska, BCBS of North Dakota, BCBS of Western New York, Excellus BCBS (New York), Capital BC (Pennsylvania), Independence BC (Pennsylvania), Triple-S, Inc. of Puerto Rico, BCBS of South Carolina, BCBS of Vermont, Premera BC (Washington and Alaska), and BCBS of Wyoming.

We did not consider each BCBS plan's internal control structure in planning and conducting our auditing procedures. Our audit approach consisted mainly of substantive tests of transactions and not tests of controls. Therefore, we do not express an opinion on each BCBS plan's system of internal controls taken as a whole.

We conducted tests to determine whether the applicable BCBS plans had complied with the contract provisions, 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 that relate to cash management of FEHBP funds. The results of our tests indicate that, with respect to the items tested, seven BCBS plans in our sample did not fully comply with all provisions of the contract and federal procurement regulations relative to cash management of FEHBP funds. Exceptions noted in the areas reviewed are set forth in detail in the "Audit Findings and Recommendations" section of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that the applicable BCBS plans had not complied, in all material respects, with those provisions.

In conducting our audit, we relied to varying degrees on computer-generated data provided by the FEP Director's Office and the BCBS plans. 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 objective.

The audit was mostly performed at our office in Jacksonville, Florida from February 2, 2017, through June 21, 2017. During our audit fieldwork phase, we also made short on-site visits to Independence BC from February 22 through February 23, 2017; BCBS of Western New York from April 18 through April 19, 2017; and Excellus BCBS from April 20 through April 21, 2017. Throughout the audit process, the FEP Director's Office and BCBS plans did a good job providing complete and timely responses to our requests for supporting documentation. We greatly appreciated the cooperation and responsiveness by the FEP Director's Office and applicable BCBS plans during the pre-audit and fieldwork phases of this audit.

METHODOLOGY

To test each of the 20 BCBS plans' compliance with the contract provisions relative to cash management activities, we selected and reviewed a judgmental sample of 20 – 30 LOCA drawdowns from each plan (except for Triple-S, Inc.) for the purpose of determining if the LOCA drawdowns were appropriate and adequately supported. Our sample included a week of LOCA drawdowns for each BCBS plan (usually representing five LOCA drawdowns),

judgmentally selected from each of the six quarters in the audit scope.² We did not project the sample results to the universe of LOCA drawdowns. In total for these 20 BCBS plans, we selected and reviewed 566 LOCA drawdowns, totaling \$425 million (from a universe of 6,143 LOCA drawdowns, totaling \$5.4 billion), during the period 2015 through June 30, 2016. These 566 LOCA drawdowns consisted of the following:

- 20 drawdowns, totaling \$17,438,572 (out of \$225,705,644), for BCBS of Arkansas;
- 28 drawdowns, totaling \$1,911,280 (out of \$25,977,259), for BCBS of Hawaii;
- 29 drawdowns, totaling \$14,507,973 (out of \$170,105,206), for BCBS of Idaho;
- 30 drawdowns, totaling \$28,321,408 (out of \$378,653,537), for Wellmark BCBS;
- 30 drawdowns, totaling \$14,787,447 (out of \$202,487,644), for BCBS of Kansas;
- 30 drawdowns, totaling \$32,458,040 (out of \$395,119,772), for BCBS of Louisiana;
- 30 drawdowns, totaling \$34,916,380 (out of \$483,464,670), for BCBS of Michigan;
- 30 drawdowns, totaling \$11,552,255 (out of \$325,061,888), for BCBS of Mississippi;
- 30 drawdowns, totaling \$22,706,476 (out of \$317,893,716), for BCBS of Kansas City;
- 29 drawdowns, totaling \$19,189,460 (out of \$255,303,644), for BCBS of Nebraska;
- 30 drawdowns, totaling \$8,501,534 (out of \$74,249,231), for BCBS of Western New York;
- 30 drawdowns, totaling \$12,168,921 (out of \$152,643,593), for Excellus BCBS;
- 30 drawdowns, totaling \$9,206,871 (out of \$118,300,564), for BCBS of North Dakota;
- 30 drawdowns, totaling \$25,670,691 (out of \$341,872,339), for Capital BC;
- 30 drawdowns, totaling \$50,128,765 (out of \$433,388,647), for Independence BC;
- 10 drawdowns, totaling \$1,518,744 (out of \$5,059,775), for Triple-S, Inc. of Puerto Rico;
- 30 drawdowns, totaling \$33,405,097 (out of \$475,752,038), for BCBS of South Carolina;
- 30 drawdowns, totaling \$6,893,126 (out of \$97,409,209), for BCBS of Vermont;
- 30 drawdowns, totaling \$68,945,748 (out of \$826,688,804), for Premera BC; and,
- 30 drawdowns, totaling \$10,912,129 (out of \$112,009,064), for BCBS of Wyoming.

We also reviewed each BCBS plan's working capital calculations, adjustments and/or balances, Treasury offsets, and interest income transactions from 2015 through June 30, 2016, and each plan's dedicated FEP investment account activity during the scope and balance as of June 30, 2016.

² For Triple-S, Inc., our sample included 10 LOCA drawdowns because the plan only made 1 or 2 drawdowns a week for each of the six weeks selected for review.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Excess Working Capital Deposits

\$3,242,641

Based on our review of the BCBS plans' working capital deposits, we determined that Independence BC and BCBS of Wyoming held excess working capital deposits of \$3,242,641 in the dedicated FEP investment accounts (\$1,877,171 by Independence BC and \$1,365,470 by BCBS of Wyoming). As a result, Independence BC and BCBS of Wyoming returned \$3,242,641 to the FEHBP for these questioned excess working capital deposits.

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 fund on a monthly basis and adjust if necessary on a quarterly basis. . . . The working capital is not required but strongly recommended." Based on these Guidelines, the Carrier's working capital calculation must also exclude electronic fund transfers.

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.

For the period 2015 through June 30, 2016, we reviewed the working capital calculations, adjustments and/or balances for the BCBS plans in our sample. Based on our review, we determined that Independence BC and BCBS of Wyoming held excess working capital deposits in the FEP investment accounts as of June 30, 2016. When reviewing these plans' working capital calculations, we also determined that Independence BC and BCBS of Wyoming inappropriately included electronic fund transfers in the calculations.

- Independence BC held a working capital deposit amount of \$2,517,826 in the dedicated FEP investment account as of June 30, 2016. To determine if Independence BC maintained an appropriate working capital deposit amount, we recalculated what the plan's working capital deposit should be and determined that, as of June 30, 2016, the plan should have only maintained a deposit of \$640,655. Our calculation excluded electronic fund transfers. Therefore, we determined that, as of June 30, 2016, Independence BC held a working capital deposit with an excess amount of \$1,877,171 (\$2,517,826 minus \$640,655) over the amount actually needed to meet the plan's daily

cash needs for FEHBP claim payments. Because of this finding, Independence BC returned these excess funds of \$1,877,171 to the LOCA on March 22, 2017.

- BCBS of Wyoming recalculated the working capital deposit (excluding electronic fund transfers) during our fieldwork phase and determined that, as of February 28, 2017, the deposit should only be \$311,445. However, BCBS of Wyoming held a working capital deposit of \$1,676,915. We reviewed and accepted the plan's calculation. Therefore, as of February 28, 2017, the plan held a working capital deposit with an excess amount of \$1,365,470 (\$1,676,915 minus \$311,445) over the amount actually needed to meet the plan's daily cash needs for FEHBP claim payments. Because of this finding, BCBS of Wyoming returned these excess funds of \$1,365,470 to the FEHBP via multiple LOCA drawdown adjustments in April 2017.

Independence BC and BCBS of Wyoming held excess working capital deposits of \$3,242,641 in the plans' FEP investment accounts.

In total, we are questioning \$3,242,641 (\$1,877,171 plus \$1,365,470) for excess working capital deposits that were held by Independence BC and BCBS of Wyoming. Since each of these plans maintained the questioned excess funds in the dedicated FEP investment account, lost investment income (LII) is not applicable for this finding.

Association Response:

The Association agrees with the finding and recommendations. The Association also states that Independence BC and BCBS of Wyoming have implemented procedures to ensure that the working capital deposit is properly calculated.

OIG Comment:

As part of our review, we verified that BCBS of Wyoming returned the questioned excess working capital funds of \$1,365,470 to the FEHBP in April 2017. We also noted that Independence BC returned the total working capital deposit amount of \$2,517,826 to the FEHBP in March 2017, which included the questioned excess working capital funds of \$1,877,171.

Recommendation 1

We recommend that the contracting officer require the applicable BCBS plans to return \$3,242,641 to the FEHBP for the questioned excess working capital deposits (\$1,877,171 by Independence BC and \$1,365,470 by BCBS of Wyoming). However, since we verified that Independence BC and BCBS of Wyoming returned \$3,242,641 to the FEHBP for these excess deposits, no further action is required for this questioned amount.

Recommendation 2

We recommend that the contracting officer verify that Independence BC and BCBS of Wyoming implemented corrective actions to ensure that the working capital deposit (if applicable) is properly calculated in accordance with the Guidelines and applicable regulations.

B. Letter of Credit Account Overdraws (Drawdown Errors) \$2,142,950

Our audit identified LOCA overdraws, totaling \$2,139,136, which Independence BC then returned, along with LII of \$3,814, to the FEHBP.

Our audit determined that Independence BC inadvertently overdraw \$2,139,136 in funds from the LOCA during the period 2015 through March 31, 2017. As a result of this finding, Independence BC returned \$2,142,950 to the FEHBP, consisting of \$2,139,136 for these questioned LOCA overdraws and \$3,814 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.”

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

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.”

When reviewing the sample of LOCA drawdowns for Independence BC, we identified several instances where there were variances between the actual checks-presented amounts reported on the bank statement and the amounts included on the plan's LOCA drawdown worksheets and withdrawn from the LOCA. We followed-up with Independence BC to obtain an understanding for these variances. Independence BC researched these variances and identified a systematic error in the plan's LOCA drawdown process for certain checks-presented amounts. In certain instances, the checks-presented amounts were duplicated in the plan's daily checks-clearing report, resulting in these check amounts being included twice in the plan's LOCA drawdown worksheets. This error occurred when Independence BC migrated to a new claims processing system.

Due to these variances identified in our sample, we expanded the scope of the plan's LOCA drawdowns to include 2015 through March 31, 2017, for this type of "duplicate" LOCA overdraw error. For this period, Independence BC performed an analysis and identified 19 instances where claim payment check amounts were duplicated in the plan's daily checks-clearing reports and LOCA drawdown worksheets, resulting in excess LOCA drawdowns of \$682,042. Independence BC also calculated LII of \$3,814 on these LOCA overdrafts. We reviewed and accepted Independence BC's analysis of these LOCA overdrafts and calculation of LII. We also verified that Independence BC returned these LOCA overdrafts of \$682,042 and applicable LII of \$3,814 to the FEHBP, via several LOCA drawdown adjustments from March 2017 through May 2017.

While researching the "duplicate" LOCA overdraw error, Independence BC also identified two additional (but different) LOCA overdraw errors. Specifically, the plan self-disclosed that in two instances the plan inadvertently overdrew funds, totaling \$1,457,094 (\$1,034,094 plus \$423,000), from the LOCA for claims payments. These LOCA overdrafts resulted from the following:

- On September 14, 2016, Independence BC inadvertently withdrew \$4,419,263 from the LOCA for the claim payment amounts, instead of the actual amounts of \$3,385,169. This overdraw amount resulted in an overcharge of \$1,034,094 (\$4,419,263 minus \$3,385,169) to the FEHBP.
- On January 11, 2017, Independence BC also inadvertently withdrew \$470,008 from the LOCA for the claim payment amounts, instead of the actual amounts of \$47,008. This overdraw amount resulted in an overcharge of \$423,000 (\$470,008 minus \$47,008) to the FEHBP.

We verified that Independence BC returned these two additional LOCA overdraws, totaling \$1,457,094, to the FEHBP in March 2017. Since Independence BC held these two LOCA overdraw amounts in the dedicated FEP investment account, LII is not applicable.

In total, we are questioning \$2,142,950 for this audit finding, consisting of \$2,139,136 (\$682,042 plus \$1,457,094) for the LOCA overdraws and \$3,814 for applicable LII.

Association Response:

The Association agrees with the finding and recommendations.

OIG Comment:

As part of our review, we verified that Independence BC returned \$2,142,950 to the FEHBP, consisting of \$2,139,136 for the questioned LOCA overdraws and \$3,814 for applicable LII.

In response to the draft report, the Association provided a summary of the corrective actions that Independence BC has implemented to prevent these types of LOCA overdraws (as reported in the audit finding) from occurring again. However, the Association did not provide supporting documentation ensuring that Independence BC has actually implemented these corrective actions.

Recommendation 3

We recommend that the contracting officer require Independence BC to return \$2,139,136 to the FEHBP for the questioned LOCA overdraws. However, since we verified that Independence BC returned \$2,139,136 to the FEHBP for these LOCA overdraws, no further action is required for this questioned amount.

Recommendation 4

We recommend that the contracting officer require Independence BC to return \$3,814 to the FEHBP for LII on the applicable LOCA overdraws. However, since we verified that Independence BC returned \$3,814 to the FEHBP for LII on the applicable LOCA overdraws, no further action is required for this questioned LII amount.

Recommendation 5

We recommend that the contracting officer require Independence BC to provide evidence or supporting documentation ensuring that the plan has implemented the necessary corrective actions to prevent these types of LOCA overdraws (as reported in the audit finding) from occurring in the future. At a minimum, the contracting officer should require Independence BC and the Association to each provide a certification that the plan has implemented these corrective actions.

C. Health Benefit Refunds

\$912,881

Our audit determined that Wellmark BCBS and BCBS of Vermont had not returned health benefit refunds, totaling \$904,606, to the FEHBP as of June 30, 2016 (\$888,977 by Wellmark BCBS for 186 refunds and \$15,629 by BCBS of Vermont for 1 refund). As a result of our audit, Wellmark BCBS returned \$897,252 to the FEHBP, consisting of \$888,977 for the questioned refunds and \$8,275 for applicable LII. BCBS of Vermont also returned \$15,629 to the FEHBP for the questioned refund. In total, we are questioning \$912,881 for this audit finding, consisting of \$904,606 (\$888,977 plus \$15,629) for these previously unreturned health benefit refunds and \$8,275 for applicable LII.

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

Because of our audit, Wellmark BCBS and BCBS of Vermont returned health benefit refunds, totaling \$904,606, to the FEHBP.

Regarding reportable monetary findings, Part III, Section 3.16 (a) of Contract CS 1039 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.”

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.

Wellmark BCBS

In response to our Audit Information Request (during our pre-audit phase), Wellmark BCBS self-disclosed that while preparing for the audit, the plan identified 186 health benefit refunds from 2015 and 2016, totaling \$888,977, that had not been returned to the FEHBP due to a systematic error. The plan stated, "Effective October 1, 2015, Wellmark implemented a new system to track both claims related accounts receivables and incoming claims related cash receipts. Recently, Wellmark discovered that the new system was not properly identifying certain FEP related system claim adjustments, thus dollars related to these adjustments were not being remitted back to FEP through the LOCA."

As part of our review, we verified that Wellmark BCBS returned these health benefit refunds to the FEHBP via a LOCA drawdown adjustment on August 30, 2016, after receiving our audit notification letter (dated July 1, 2016). The plan also returned LII of \$8,275 to the FEHBP in August 2016, calculated on these refunds that were returned untimely to the FEHBP. We reviewed and accepted the plan's LII calculation. In total, Wellmark BCBS returned \$897,252 to the FEHBP for this self-disclosed finding, consisting of \$888,977 for the questioned health benefit refunds and \$8,275 for applicable LII on these refunds.

BCBS of Vermont

BCBS of Vermont had not returned a health benefit refund, totaling \$15,629, to the FEHBP as of June 30, 2016. The plan subsequently returned this health benefit refund to the LOCA on September 23, 2016, more than 60 days after receipt (i.e., 95 days late) and after receiving our audit notification letter (dated July 1, 2016). Therefore, we are questioning this amount as a monetary finding. Since the plan held this health benefit refund in the dedicated FEP investment account, LII is not applicable for this finding.

Association Response:

The Association agrees with the finding and recommendations.

OIG Comment:

We verified that Wellmark BCBS returned \$897,252 to the FEHBP, consisting of \$888,977 for the questioned health benefit refunds and \$8,275 for applicable LII. We also verified that BCBS of Vermont returned \$15,629 to the FEHBP for the questioned health benefit refund.

In response to the draft report, the Association provided a summary of the procedures that Wellmark BCBS has implemented to correct the systematic error (as reported in the audit finding). However, the Association did not provide supporting documentation ensuring that Wellmark BCBS has actually implemented these procedures.

Recommendation 6

We recommend that the contracting officer require the applicable BCBS plans to return \$904,606 (\$888,977 by Wellmark BCBS and \$15,629 by BCBS of Vermont) to the FEHBP for the questioned health benefit refunds. However, since we verified that Wellmark BCBS and BCBS of Vermont returned \$904,606 to the FEHBP for these questioned health benefit refunds, no further action is required for this questioned amount.

Recommendation 7

We recommend that the contracting officer require Wellmark BCBS to return \$8,275 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that Wellmark BCBS returned \$8,275 to the FEHBP for the questioned LII, no further action is required for this LII amount.

Recommendation 8

We recommend that the contracting officer require Wellmark BCBS to provide evidence or supporting documentation ensuring that the plan has implemented the necessary changes to correct the systematic error (as reported in the audit finding). At a minimum, the contracting officer should require Wellmark BCBS and the Association to each provide a certification that the plan has implemented the necessary changes to correct the systematic error.

D. Excess Funds in the Investment Accounts **\$8,206**

Our audit determined that two BCBS plans held excess FEHBP funds, totaling \$8,206, in the dedicated FEP investment accounts as of June 30, 2016. These excess FEHBP funds consisted of \$4,493 by Excellus BCBS and \$3,713 by BCBS of South Carolina. As a result of this finding, Excellus BCBS and BCBS of South Carolina returned these questioned excess funds 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.

The plan's FEP investment account generally includes working capital funds, approved LOCA drawdowns, health benefit refunds and recoveries from providers and subscribers, interest income earned, and other cash identified as due to the FEP. Based on Contract CS 1039, all funds deposited into the plan's FEP investment account, such as health benefit refunds, interest income and excess working capital, should be returned to the FEHBP by adjusting the LOCA within 60 days after receipt by the BCBS plan. In addition, approved reimbursements from the LOCA that are deposited into the FEP investment account should be timely transferred from the FEP investment account to the plan's corporate account.

In our Audit Information Request, we requested each of the 20 BCBS plans in our sample to provide a detailed itemization of the funds in the plan's dedicated FEP investment account as of June 30, 2016, including an aging of these funds.³ Based on our review of these FEP investment account itemizations, we determined that two of these BCBS plans (Excellus BCBS and BCBS South Carolina) were holding a total of \$8,206 in excess FEHBP funds in the FEP investment accounts as of June 30, 2016. These excess FEHBP funds consisted of \$4,493 by Excellus BCBS and \$3,713 by BCBS of South Carolina.

Association Response:

The Association agrees with the finding and recommendations. For Excellus BCBS and BCBS of South Carolina, the Association states that these plans' FEP investment account variances are reported to OPM during the quarterly cash management reporting.

OIG Comment:

As part of our review, we verified that Excellus BCBS returned the excess FEHBP funds of \$4,493 to the LOCA in July 2017. We also verified that BCBS of South Carolina returned the excess FEHBP funds of \$3,713 to the LOCA in November 2017.

Recommendation 9

We recommend that the contracting officer require the applicable BCBS plans to return \$8,206 (\$4,493 by Excellus BCBS and \$3,713 by BCBS of South Carolina) to the FEHBP for the questioned excess funds held in the plans' FEP investment accounts. However, since we verified that Excellus BCBS and BCBS of South Carolina returned these excess funds to the FEHBP, no further action is required for this questioned amount.

³ Each BCBS plan in our sample provided an itemization of the FEP investment account balance as of June 30, 2016 (except for BCBS of Western New York, Triple-S, Inc. of Puerto Rico, and Premera BC since these plans did not maintain working capital deposits and dedicated FEP investment accounts as of June 30, 2016).

Recommendation 10

We recommend that the contracting office require the Association to provide evidence or supporting documentation ensuring that Excellus BCBS and BCBS of South Carolina are performing FEP investment account reconciliations at least on a quarterly basis. However, since the Association provided documentation ensuring that Excellus BCBS and BCBS of South Carolina are performing FEP investment account reconciliations on a quarterly basis, no further action is required for this procedural recommendation.

E. Treasury Offsets

\$6,736

BCBS of Michigan had not returned \$5,863 to the FEHBP for an offset taken from the LOCA by the Treasury on February 12, 2016. The plan self-disclosed this exception during our pre-audit phase. The plan also identified five Treasury offsets that were returned late to the FEHBP during the audit scope. As a result, BCBS of Michigan returned \$6,736 to the FEHBP for this audit finding, consisting of \$5,863 for the questioned Treasury offset against the LOCA and \$873 for applicable LII on the Treasury offsets returned untimely to the FEHBP.

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

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

The Treasury will occasionally recover non-FEHBP debts from a BCBS plan by reducing LOCA drawdowns made to the plan for FEHBP claim payments. If this occurs, the BCBS plan should make the FEHBP whole by transferring funds into the dedicated FEP investment account to replenish the funds that were taken.

During our review of Treasury offsets for a sample of 20 BCBS plans, we only noted exceptions for BCBS of Michigan. While preparing for our audit, BCBS of Michigan identified and returned a Treasury offset, totaling \$5,863, to the FEHBP on August 12, 2016, more than 153 days late and after receiving our audit notification letter (dated July 1, 2016). For this exception, although BCBS of Michigan did not withdraw additional funds from the LOCA to cover the shortage caused by the Treasury offset, the plan inadvertently did not

transfer funds into the FEP investment account to cover this Treasury offset, which left the FEP investment account short by \$5,863 as of June 30, 2016. Therefore, we are questioning this exception as a monetary finding, consisting of \$5,863 for a Treasury offset returned to the FEHBP after our audit notification date and \$57 for applicable LII on this Treasury offset returned untimely to the FEHBP.

When responding to our Audit Information Request (during our pre-audit phase), BCBS of Michigan also self-disclosed that five Treasury offsets, totaling \$45,807, were returned untimely to the FEHBP during the audit scope. For these five Treasury offsets, we noted that the plan transferred the applicable funds into the FEP investment account from 218 to 412 days late. Since the plan returned these funds to the FEHBP during the audit scope and prior to receiving our audit notification letter, we did not question this principal amount as a monetary finding. However, we are questioning LII of \$816 on these five Treasury offsets, because BCBS of Michigan transferred the applicable funds untimely into the FEP investment account.

Association Response:

The Association agrees with the finding and recommendations.

OIG Comments:

As part of our review, we verified that BCBS of Michigan returned \$6,736 to the FEHBP for this audit finding, consisting of \$5,863 for the questioned Treasury offset against the LOCA and \$873 (\$57 plus \$816) for applicable LII on Treasury offsets returned untimely to the FEHBP. We reviewed and accepted the plan's LII calculations.

In response to the draft report, the Association provided a copy of BCBS of Michigan's updated Treasury offset procedures. However, the Association did not provide supporting documentation ensuring that the plan has implemented these updated procedures.

Recommendation 11

We recommend that the contracting officer require BCBS of Michigan to return \$5,863 to the FEHBP for the questioned Treasury offset. However, since we verified that the plan returned \$5,863 to the FEHBP for the questioned Treasury offset, no further action is required for this amount.

Recommendation 12

We recommend that the contracting officer require BCBS of Michigan to return \$873 to the FEHBP for the questioned LII on the Treasury offsets returned untimely to the FEHBP. However, since we verified that the plan returned \$873 to the FEHBP for this questioned LII, no further action is required for this LII amount.

Recommendation 13

We recommend that the contracting officer verify that BCBS of Michigan has implemented the necessary procedures to ensure that Treasury offsets are timely returned to the FEHBP. At a minimum, the contracting officer should require BCBS of Michigan and the Association to each provide a certification that the plan has implemented these procedures.

F. Unreturned Interest Income

\$2,556

Our audit determined that BCBS of Vermont had not returned interest income of \$2,556 to the FEHBP as of June 30, 2016. This interest income was earned on funds held in the plan's dedicated FEP investment account from 2015 through June 30, 2016. As a result of our audit, the plan returned this interest income to the FEHBP in August 2016 and June 2017.

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."

OPM's Guidelines (dated May 2009) also state, "Excess funds must be held in a separate interest-bearing account. The interest earned on these funds must be credited to the FEHBP, by reducing the amount of a draw, at least on a monthly basis and used by the Carrier to pay only FEHBP expenses."

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

From 2015 through June 30, 2016, BCBS of Vermont earned interest income of \$2,556 on FEHBP funds in the plan's dedicated FEP investment account, but had not returned this interest income to the FEHBP. After receiving our audit notification letter (dated July 1, 2016) and because of our audit, BCBS of Vermont returned \$253 of this questioned interest income to the FEHBP in August 2016 and \$2,303 to the FEHBP in June 2017. Since the plan held this interest income in the dedicated FEP investment account, LII is not applicable for this audit finding.

Association Response:

The Association agrees with the finding and recommendations.

OIG Comments:

As part of our review, we verified that BCBS of Vermont returned \$2,556 to the FEHBP in August 2016 and June 2017 for the questioned interest income.

In response to the draft report, the Association provided a copy of BCBS of Vermont's updated interest income procedures. However, the Association did not provide supporting documentation ensuring that the plan has implemented these updated procedures.

Recommendation 14

We recommend that the contracting officer require BCBS of Vermont to return \$2,556 to the FEHBP for the questioned interest income. However, since we verified that the plan returned \$2,556 to the FEHBP for this questioned interest income, no further action is required for this amount.

Recommendation 15

We recommend that the contracting officer verify that BCBS of Vermont has implemented the necessary procedures to ensure that interest income earned on the FEP investment account is timely returned to the FEHBP. At a minimum, the contracting officer should require BCBS of Vermont and the Association to each provide a certification that the plan has implemented these procedures.

IV. SCHEDULE A - QUESTIONED CHARGES

CASH MANAGEMENT ACTIVITIES SAMPLE OF BLUECROSS AND/OR BLUESHIELD PLANS				
QUESTIONED CHARGES				
AUDIT FINDINGS	2015	2016	2017	TOTAL
A. Excess Working Capital Deposits				
Independence BC	\$0	\$1,877,171	\$0	\$1,877,171
BCBS of Wyoming	0	0	1,365,470	1,365,470
Total Excess Working Capital Deposits	\$0	\$1,877,171	\$1,365,470	\$3,242,641
B. Letter of Credit Account Overdraws (Drawdown Errors)				
Independence BC *	\$0	\$1,034,094	\$1,108,856	\$2,142,950
Total Letter of Credit Account Overdraws (Drawdown Errors)	\$0	\$1,034,094	\$1,108,856	\$2,142,950
C. Health Benefit Refunds				
Wellmark BCBS *	\$172,650	\$724,602	\$0	\$897,252
BCBS of Vermont *	0	15,629	0	15,629
Total Health Benefit Refunds	\$172,650	\$740,231	\$0	\$912,881
D. Excess Funds in the Investment Accounts				
Excellus BCBS	\$0	\$4,493	\$0	\$4,493
BCBS of South Carolina	0	3,713	0	3,713
Total Excess Funds in the Investment Accounts	\$0	\$8,206	\$0	\$8,206
E. Treasury Offsets				
BCBS of Michigan *	\$816	\$5,920	\$0	\$6,736
Total Treasury Offsets	\$816	\$5,920	\$0	\$6,736
F. Unreturned Interest Income				
BCBS of Vermont	\$2,183	\$373	\$0	\$2,556
Total Unreturned Interest Income	\$2,183	\$373	\$0	\$2,556
TOTAL QUESTIONED CHARGES	\$175,649	\$3,665,995	\$2,474,326	\$6,315,970

* We included lost investment income (LII) within audit findings B (\$3,814), C (\$8,275), and E (\$873). Therefore, no additional LII is applicable for these audit findings.

APPENDIX



BlueCross BlueShield Association

An Association of Independent
Blue Cross and Blue Shield Plans

Federal Employee Program
1310 G Street N.W.
Washington, D.C. 20005
202.942.1000
Fax 202.942.1125

December 12, 2017

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

**Reference: OPM DRAFT AUDIT REPORT
Cash Management Activities
For a Sample of Blue Cross Blue Shield Plans
Audit Report Number 1A-99-00-17-001**

Dear [REDACTED]:

This is the Blue Cross and Blue Shield Association's response to the above referenced U.S. Office of Personnel Management (OPM) Draft Audit Report covering the Federal Employees' Health Benefits Program (FEHBP) Cash Management activities for a sample of Blue Cross Blue Shield Plans. Our comments concerning the findings in the report are as follows:

Excess Working Capital Deposits \$3,242,641

Recommendation 1

We recommend that the contracting officer require the applicable BCBS Plans to return \$3,242,641 to the FEHBP for the questioned excess WC deposits (\$1,877,171 by IBC and \$1,365,470 by BCBS of Wyoming). However, since we verified that IBC and BCBS of Wyoming returned \$3,242,641 to the FEHBP for the excess WC deposits, no further action is required for this questioned amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 2

We recommend that IBC and BCBS of Wyoming implement corrective actions to ensure that the WC deposit is properly calculated in accordance with the Guidelines and applicable regulations.

December 12, 2017

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BCBSA Response

BCBSA agrees with this recommendation. IBC and BCBSWY have implemented new procedures to ensure Working Capital is properly calculated. **See Attachment A.**

Letter of Credit Account Overdraws (Drawdown Errors)

\$2,142,950

Recommendation 3

We recommend that the contracting officer require IBC to return \$2,139,136 to the FEHBP for the questioned LOCA overdraws. However, since we verified that IBC returned \$2,139,136 to the FEHBP for these LOCA overdraws, no further action is required for this questioned amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 4

We recommend that the contracting officer require IBC to return \$3,814 to the FEHBP for LII on the questioned LOCA overdraws. However, since we verified that IBC returned \$3,814 to the FEHBP for LII on the LOCA overdraws, no further action is required for this questioned LII amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 5

We recommend that the contracting officer require IBC to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary corrective actions to prevent these types of LOCA overdraws (as reported in the audit finding) from occurring in the future

BCBSA Response

BCBSA agrees with this recommendation and provided additional documentation. Reference **Attachment A.**

Health Benefit Refunds

\$912,881

Recommendation 6

We recommend that the contracting officer require the applicable BCBS Plans to return \$904,606 (\$888,977 by Wellmark BCBS and \$15,629 by BCBS of Vermont) to the FEHBP for the questioned health benefit refunds. However, since we verified that Wellmark BCBS and BCBS of Vermont returned \$904,606 to the FEHBP for the questioned health benefit refunds, no further action is required for these questioned refund amounts.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 7

We recommend that the contracting officer require Wellmark BCBS to return \$8,275 to the FEHBP for the questioned LII on the health benefit refunds that were returned untimely to the FEHBP. However, since we verified that Wellmark BCBS returned \$8,275 to the FEHBP for the questioned LII, no further action is required for this LII amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 8

We recommend that the contracting officer require Wellmark BCBS to provide evidence or supporting documentation ensuring that the Plan has implemented the necessary changes to correct the systematic error (as reported in the audit finding).

BCBSA Response

BCBSA agrees with this recommendation and has provided updated procedures.

Reference **Attachment B**

Excess Funds in the Investment Account

\$8,206

Recommendation 9 [Combined]

We recommend that the contracting officer require Excellus BCBS to return \$4,493 to the FEHBP for the questioned excess funds that were held in the Plan's FEP investment account. However, since we verified that Excellus BCBS returned \$4,493 to the FEHBP for these excess funds, no further action is required for this questioned amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 9 [Combined]

We recommend that the contracting officer require BCBS South Carolina to immediately return the questioned excess funds of \$3,713 to the FEHBP (unless the Plan can provide evidence or supporting documentation that these funds are not FEHBP funds).

BCBSA Response

The Plan has returned the funds to the Program (Reference **Attachment C**). However, the Plan suggests a tolerance be set to determine when reimbursement is required in the future. The OIG auditors identified the variance while reviewing the Plan's reconciliation of working capital to FEP investment account balance. Because BCBSA settles the bulk of FEP payments weekly, the Plan uses the second method to calculate their working capital base. The second method uses estimation. In this method, working capital is a calculated number based on one week's claims, and not based on actual daily benefits reported. This method inherently creates a variance each quarter.

Recommendation 10

We recommend that the contracting office require the Association to provide evidence or supporting documentation ensuring that Excellus BCBS and BCBS of South Carolina are performing FEP investment account reconciliations at least on a quarterly basis. We also recommend that the contracting office require the Association to provide evidence or supporting documentation ensuring that these BCBS Plans are not maintaining and/or commingling the Plans' corporate funds in the FEP investment accounts.

BCBSA Response

BCBSA agrees with this recommendation and actually implemented this recommendation in 2012. In the case of these two Plans, variances in the account are reported to OPM during the Quarterly OPM Cash Management Reporting on a semi-annual basis. Reference **Attachment D**

Recommendation 11

We recommend that the contracting officer require BCBS of Michigan to return \$5,863 to the FEHBP for a Treasury offset against the LOCA. However, since we verified that the Plan returned \$5,863 to the FEHBP for this Treasury offset against the LOCA, no further action is required for this questioned amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 12

We recommend that the contracting officer require BCBS of Michigan to return \$873 to the FEHBP for the questioned LII on the Treasury offsets that were returned untimely to the FEHBP. However, since we verified that the Plan returned \$873 to the FEHBP for this questioned LII, no further action is required for this LII amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 13

We recommend that the contracting officer require BCBS of Michigan to provide evidence or supporting documentation demonstrating that the plan has implemented the necessary corrective actions to ensure that Treasury offsets against the LOCA are timely returned to the FEHBP.

BCBSA Response

BCBSA agrees with this recommendation. Reference **Attachment F** for the Plan's updated Treasury Offset Procedures

[REDACTED]
December 12, 2017

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Recommendation 14

We recommend that the contracting officer require BCBS of Vermont to return \$2,556 to the FEHBP for interest income earned on funds in the dedicated FEP investment account from January 2015 through June 2016. However, since we verified that the plan returned \$2,556 to the FEHBP for this interest income, no further action is required for this questioned amount.

BCBSA Response

BCBSA agrees with this recommendation.

Recommendation 15

We recommend that the contracting officer require BCBS of Vermont to provide evidence or supporting documentation demonstrating that the plan has implemented the necessary corrective actions to ensure that interest income earned on the FEP investment account is timely returned to the FEHBP.

BCBSA Response

BCBSA agrees with this recommendation. Reference **Attachment G** for the Plan's updated procedures.

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.

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

Sincerely,

[REDACTED]

[REDACTED]
Executive Director, Program Integrity

Attachments



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